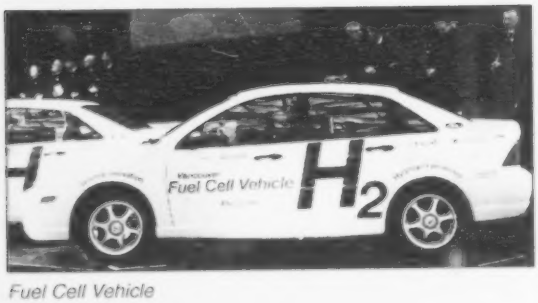
Hybrid Bus Kelowna

Community Bus Qualicum Beach



Fuel Cell Vehicle

BC TRANSIT
Annual Report

BC Transit 2005

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Her Honour

The Honourable Iona Campagnolo
Lieutenant-Governor of the
Province of British Columbia

MAY IT PLEASE
YOUR HONOUR,

I respectfully submit the
Annual Report of BC Transit
for the fiscal year ended
March 31, 2005.

Kevin Falcon
Minister of Transportation and
Minister responsible for BC Transit

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MESSAGE FROM THE CHAIR

The 2004/05 year was one of challenge and achievement for BC Transit and our municipal and contract service partners. Achievements included a growing list of partnership arrangements, bringing added support and resources to our provincial transit program, and this year also represented a record in terms of market growth and ridership with more than 38 million customers boarding our transit systems. Challenges continued with external cost pressures and increased maintenance activity on the 702 vehicles in our fleet.

Through partnerships, the use of flex-funding by local government partners, and supplementary funding from the provincial government to address extraordinary maintenance activity, core services were protected in all communities. In addition, some modest service improvements were implemented and new vehicles put into revenue service.

The fiscal year also saw an increased focus on a range of new technologies and systems designed to promote efficiency and effectiveness, and to reduce the environmental impacts of urban transportation. BC Transit, with other fleet owners in the Victoria Region, is participating in a six-month pilot test of biodiesel to gain more first hand insight into the fuel efficiency, emissions and other impacts of a B20 blend (20% bio-fuel / 80% diesel). The project is scheduled to end early in the new fiscal year. BC Transit has also placed an order for Canada's first production hybrid diesel-electric transit buses, with delivery of three buses to Kelowna, and three to the Victoria Regional Transit System scheduled by July 2005. At a time of such extraordinary price volatility in global petroleum markets, the significant energy savings anticipated are expected to result in substantial expenditure and emission reductions over the life of these vehicles.

Progress has also been made on the establishment of a fuel cell bus program for British Columbia. BC Transit has received funding to develop the detailed business case and implementation plan to have a fleet of hydrogen fuel cell powered buses in service in advance of the Vancouver 2010 Winter Olympic and Paralympic Games. This study, due for completion in the fall of 2005, will lay out requirements for a successful "early adopter" strategy that will form a key part of British Columbia's goal to maintain a global leadership role in hydrogen and fuel cell technology. BC Transit has also taken advantage of an opportunity to use a hydrogen powered fuel cell car supplied by a partnership including Ford, Fuel Cells Canada, the Government of Canada and the Province of B.C. to gain direct insight on the requirements for successful operation and fueling of hydrogen fuel cell powered vehicles.

In addition, BCTransit has received federal funding to develop and implement a real-time information system for handyDART customer pick-up and vehicle dispatch. This new technology, when fully operational in 2006, will substantially enhance vehicle efficiency, service quality and service reliability for disabled and elderly passengers who rely on handyDART.

In other areas of service delivery and operations all major program objectives and performance targets were met or exceeded. Along with record ridership, operating revenues ended the year more than 8% above last year's actual. The expanded use of partnerships contributed to this solid revenue performance.

Strategic purchasing and other cost control measures taken by BC Transit helped insulate the Corporation from external cost pressures, with the result that expenditures increased at rates significantly less than inflation. In 2004/05 BC Transit's strategic procurement initiatives provided an estimated annual savings of $12 million for expenses such as fuel, bus parts, fleet purchases and contracted service delivery. Prior to year-end, major accelerated vehicle maintenance programs were concluded. As well, two-year collective agreements consistent with the government's compensation provisions were signed with unions representing BC Transit operations, maintenance and administrative staff in Victoria covering the 2004/05 and 2005/06 fiscal years.

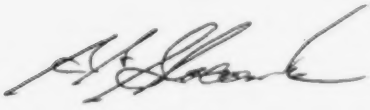
The federal government included BC Transit under the 'municipal' definition, making the Corporation eligible for more than $1.7 million in annual recoveries in GST payments when the full exemption for municipalities was announced early in the year. The Board has used these GST savings to offset cost increases and re-establish traditional cost-sharing arrangements with local government partners in order to protect core services.

The Board continues to conduct a regular dialogue with local government partners and other stakeholders, to both gauge and enhance understanding of the transit program in B.C. Meetings with councils and regional boards throughout the province confirmed a continuing need for increased transit service to support local economic, social and development objectives. The Board and senior staff also participated actively, through the Canadian Urban Transit Association, the Federation of Canadian Municipalities, and by direct discussion with MP's and federal officials in efforts to promote the establishment of a national urban transportation program to support the development of more sustainable and efficient urban transportation systems in our cities and communities. The federal budget announcement late in the fiscal year

confirmed a commitment to the start of a new national program, the "New Deal for Cities and Communities", including support for transit, to commence in the next fiscal year.

In summary, results for the 2004/05 year were positive, given major cost pressures. The record achievement in ridership speaks to the continuing growth in the market, and support, for transit services as a key to mobility and quality of life in dozens of communities in British Columbia.

On behalf of the Board of Directors, I wish to thank all BC Transit staff, our local government partners and our contracted service providers for their outstanding contributions to our success over the past year.



Gregory Slocombe
Chair

ACCOUNTABILITY STATEMENT

BC Transit's 2004/05 Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of BC Transit for the twelve months ended March 31, 2005. All significant decisions, events and identified risks, as of March 31, 2005, have been considered in preparing the report.

The information presented is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our actual performance in relation to our service plan.

Greg Slocombe
Chair

ORGANIZATIONAL **OVERVIEW**

ORGANIZATIONAL OVERVIEW

BC Transit is the provincial Crown agency charged with coordinating the delivery of public transportation throughout British Columbia outside Greater Vancouver. In partnership with local government, the Corporation's mandate includes planning, funding, marketing, fleet management and contracting for the operations of transit services. According to the *British Columbia Transit Act* (Section 3.1) BC Transit's mandate is to:

> "... plan, acquire, construct or cause to be constructed public passenger transportation systems and rail systems that support regional growth strategies, official community plans, and the economic development of transit service areas" [and] "to provide for the maintenance and operation of those systems."

The 2004/05 scope of BC Transit's program is as follows:

- 50 local government partners and in Victoria, the Victoria Regional Transit Commission
- service provided by 20 private sector operating companies, 13 non-profit agencies, 4 local governments and BC Transit
- 38.6 million passengers carried annually
- 1.4 million B.C. residents served with public transit
- 71 transit systems
- fleet of 702 buses, minibuses and vans
- $124.3 million operating expenditure
- $47.1 million provincial operating grants

VISION

In recognition of the pivotal role public transportation plays in sustaining vibrant, healthy communities, BC Transit's vision is for the:

> Development of transit services, in partnership with each community, to provide essential mobility and travel choice for all residents, where costs of traffic congestion are reduced, air quality and associated health benefits enhanced, more compact and efficient urban development supported and costly new roadway construction deferred.

MISSION

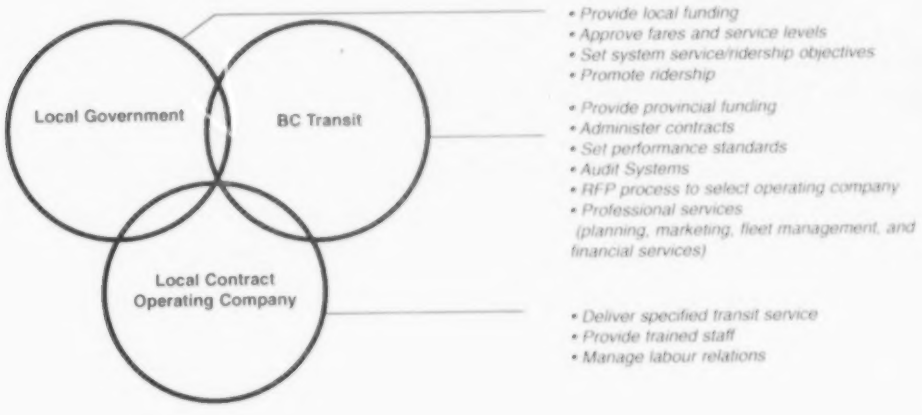
BC Transit's mission statement integrates the Corporation's purpose, products and client base:

> To excel in the provision of safe, reliable, cost-efficient and market-focused public transportation systems that support the social, economic and environmental goals of the customers and communities served.

Working within a framework of provincial/local government/private partnerships, BC Transit benefits from a strong component of local government decision-making and private sector expertise. Victoria is the only location where BC Transit directly operates the conventional transit service. In four locations (Nanaimo, Nelson, Powell River and the Sunshine Coast) a local government operates the service. Elsewhere, private sector companies or non-profit societies deliver services under contract to BC Transit and the municipal funding partner.

Three types of transit ensure services are tailored to local markets and community needs. **Conventional** transit serves the general population in urban settings using mid-sized, large or double deck buses — mostly fully accessible and low-floor — with fixed routes and fixed schedules. Recent conventional transit innovations have ranged from Community Bus to Bus Rapid Transit. **Custom** transit serves those who cannot access conventional transit because of a disability. This service uses vans and minibuses for dial-a-ride, door-to-door handyDART service, and taxis through contracted Taxi Supplement and Taxi Saver (discounted coupon) programs. In small town, rural and suburban areas **Paratransit** offers flexible routing and schedules for passengers using minibuses, taxis and vans.

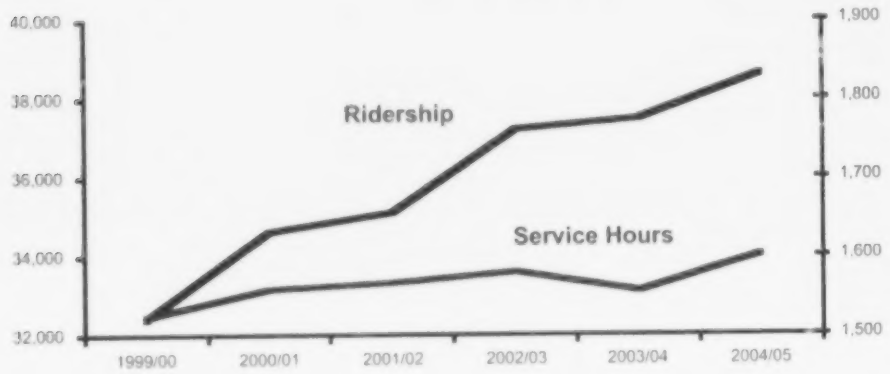
BC Transit's Public-Private Partnership


Local Government
BC Transit
Local Contract Operating Company
• Provide local funding
• Approve fares and service levels
• Set system service/ridership objectives
• Promote ridership
• Provide provincial funding
• Administer contracts
• Set performance standards
• Audit Systems
• RFP process to select operating company
• Professional services (planning, marketing, fleet management, and financial services)
• Deliver specified transit service
• Provide trained staff
• Manage labour relations

THE YEAR IN REVIEW

RECORD RIDERSHIP

Last year ridership on BC Transit's systems reached a new all-time high. In total, 38.6 million passengers were carried on conventional, custom and paratransit in the Victoria Region and the Municipal Systems Program. Over the last five years, hours of service grew by just 2.8%, yet in the same period ridership jumped by 11.5% — evidence of a strong and growing demand for transit around the province, and the provision of increasingly effective services.



PROTECTION OF CORE SERVICES

In partnership with local municipalities and the provincial government, BC Transit successfully protected core transit services in 2004/05, and managed to implement a few high-priority expansions. This was achieved through a number of measures:

- The provincial government increased its operating contribution to $47.1 million from $45.5 million. In the year under review, direct provincial government subsidies covered 38% of BC Transit total expenditures (this increases to 42% including the debt service directly funded by the government).

- BC Transit successfully completed its accelerated maintenance program by year-end. This work was covered by a $1.0 million grant from the province beginning in 2003/04, and matching funds of $1.4 million from local government partners. The province also provided a one-time grant of $1.0 million in 2004/05 to fund 100% of the cost of the wheelchair ramp retrofit.

- Beginning in 2003/04, the province made a flex-funding option available to local governments choosing to increase their funding contribution. In 2004/05, of 50 local government partners, 12 chose to contribute a total of $1.3 million in flex-funding to preserve core services, and to support high-priority service enhancements. In total, 30,000 more service hours of conventional transit were provided in the Municipal Systems compared to the prior year. Custom and paratransit services increased by 6,000 hours.

- In the Victoria Regional Transit System, service hours grew slightly due to the introduction of less costly community bus service. While the level of conventional bus service declined marginally, 9,000 hours of new community bus service — provided in efficient, smaller vehicles — were added to serve less densely populated areas. Custom transit service also increased by 7,000 hours.

- BC Transit's strategic procurement reduced costs. The Corporation carries out volume purchases of goods and services for transit systems throughout the province. Through its diesel fuel futures contract, BC Transit achieved annual savings in 2004/05 of $4.0 million, and through volume purchases of buses, a further $2.2 million. Service contracts saved a further $4.5 million. Purchase of vehicle parts and insurance for transit systems province-wide also achieved considerable economies of scale, bringing the total savings to $12.0 million annually.

- BC Transit purchased 9 additional double deck buses to efficiently handle high passenger loads in the Victoria region. With a capacity of 110 passengers, double deck buses are operated on heavy volume routes.

- Labour represents approximately two-thirds of total costs. Two-year collective agreements with no wage increases were successfully negotiated with locals of all three unions representing BC Transit head-office staff, and employees who provide conventional transit services for the Victoria Regional Transit System covering this year in review and next fiscal year.

Community Bus Victoria

PARTNERSHIPS

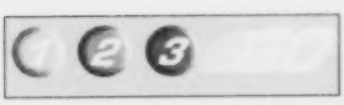
Throughout the year BC Transit identified new partnership opportunities for developing and marketing customer-friendly transit services, and for improving the level of service provided with the funding available. Initiatives included:

- New high priority services were implemented in the Central Fraser Valley communities of Abbotsford and Mission last August, including additional trips to the University College of the Fraser Valley. This improvement was made possible by a new partnership between BC Transit, local government and the University College.

- BC Transit partnered with others, including local governments, in developing six successful funding applications during the year. By year end, $2.66 million in new funds were awarded for the following projects.
  - $2.0 million from Canada - B.C. Infrastructure program for bus priority measures in the Victoria Region
  - $500,000 from Transport Canada for handyDART real-time technology project
  - $100,000 from the Canadian Transportation Fuel Cell Alliance (Natural Resources Canada) for a hydrogen fuel cell early adopter study
  - $25,000 from the Ministry of Water, Lands and Air Protection for Clean Air Day
  - $25,000 from Natural Resources Canada for the SmartDriver Program
  - $10,000 from Environment Canada for Clean Air Day

- BC Transit is participating in a four-month pilot test of a new Sea to Sky commuter service between Squamish and Whistler beginning January 2005. Costs were funded by the two communities, together with the province. The pilot project includes a blend of public transit, subsidized commuter tickets on Greyhound and an emergency ride home program for transit users.

- Partnerships also helped BC Transit develop new markets. The Corporation partnered with the Nanaimo Regional District and LHT Ventures to produce a multilingual, seven-language transit guide – Let's Bus It TM. Designed to broaden accessibility to non-English speakers, costs of the new guide were covered by advertising.



- For the first time in British Columbia, BC Transit negotiated a unique arrangement with the developer of a mixed-use residential development. The developer will provide a minimum one-year period of free transit as a bonus for all purchasers of units in the development. In return, the local municipality — the District of Saanich – agreed to allow the developer to provide fewer parking spaces than normally required by zoning.

- Partnerships enabled BC Transit to provide increased marketing in a broader range of media. With the leadership of Lamar Advertising Company (formerly Obie Media Ltd.), advertising resources were garnered through media trades with print, radio and TV in Victoria, Abbotsford, Mission, Chilliwack, Squamish and Sunshine Coast. In return BC Transit made unsold advertising space on buses available to media outlets. Media trades were valued at $170,000.

INNOVATION

Innovations in service delivery played a major part in helping BC Transit achieve record ridership and strong corporate performance. Highlights included:

- New community bus services proved to be highly successful and efficient. The buses used in these services are fully accessible and hold 24 passengers. Last year, BC Transit introduced community bus service in the Victoria, Nanaimo and Kelowna regions to provide affordable transit in rural areas and lower density suburbs. The service offers routing flexibility, including fixed-route deviation, and combines the reliability of scheduled transit with the door-to-door convenience of paratransit for customers who previously had to travel too far to the nearest stop. Ridership exceeded initial expectations, with cost per ride averaging up to 40% less than conventional service in the same market areas.

- For the first time " Route to Health ", a health promotion program, offered employees confidential and personalized health assessments and recommendations. Aggregate data will enable BC Transit to identify areas of high risk for employee groups, and to develop programs to address areas of concern.

ROUTE TO HEALTH

- In 2003/04, BC Transit was one of the first systems in Canada to train all of its Victoria bus operators in the SmartDriver Program designed by Natural Resources Canada. In 2004/05, BC Transit extended the program to the Tier 1 Municipal Systems (see Appendix A4 for list of Municipal Systems by tier). Designed to improve fuel economy, the program also includes training on hazard avoidance, and a higher quality, comfortable ride. Efforts are ongoing to measure and evaluate the overall benefits of the program.

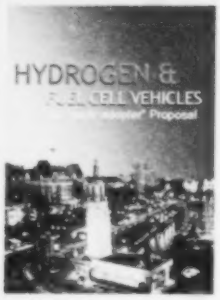
APPLICATION OF NEW TECHNOLOGIES

BC Transit is committed to exploring the application of new technologies to enhance efficiency, customer service and environmental quality. In 2004/05 key activities included:

- In December 2004, BC Transit began participating in a six-month pilot test of biodiesel fuel. The program includes several other local fleet owners in the Victoria region. The fuel being tested is B20 — 20% refined soya oil, 80% diesel. Six Victoria Regional Transit System buses are using the fuel, and effects on the operation of the test buses are being monitored.

- BC Transit was the first in Canada to place an order for hybrid-diesel electric transit buses. Six of these vehicles have been purchased, with three buses slated for Kelowna and three for the Victoria Regional Transit System. The buses are scheduled to be in revenue service by July 2005. Under "stop and go" urban transit use, it is expected the fuel efficiency of the new buses will be up to 50% better than for a standard diesel bus. It is also forecast that operation of each hybrid-diesel electric transit bus will reduce greenhouse gas emissions by up to 60 tonnes per year.

- BC Transit initiated a contract to implement and manage automated passenger counters in the larger Municipal Systems. The counters were installed on a portion of the fleet in each of the six Tier 1 transit systems. A global positioning system and infrared technology records passenger and bus information by time and location. Automated passenger counter reports generate detailed data that will allow staff to optimize schedules and service plans.



- The Corporation began developing a detailed business plan for BC Transit's early adopter program for hydrogen fuel cell buses. The initial proposal calls for BC Transit to acquire 15 to 20 fuel cell buses to be placed into full-time service in Victoria and Whistler.

  It also provides for the necessary maintenance and fueling infrastructure for the new vehicles. The early adopter program would place Canada in a leadership role in the application of emerging codes and standards for this promising technology. The proposal targets acquisition of the vehicles in early 2009, which could be showcased in Whistler during the Vancouver 2010 Olympic and Paralympic Winter Games.

- In January 2005, work began in Victoria on the handyDART real-time technology project. Targeted for completion in 2006, the first phase of the project will introduce in-vehicle telecommunications technology. In the second phase automated telephone and web-based trip booking and confirmation will be added. At the completion of the project, handyDART vehicles will be able to automatically provide customers with notification that their vehicle is approaching the pick-up point. This project is designed to improve service efficiency, convenience and reliability for handyDART users.

FUNDING AND GOVERNANCE REVIEW

Responsibility for initiating a new, sustainable funding and governance structure for transit in British Columbia rests with the Ministry of Transportation.

Early in 2005 the Minister of Transportation committed to undertake as part of the government's second mandate, in consultation with the BC Transit Board, a process of review and assessment of the current funding and governance framework for the Corporation; consideration of alternative approaches and models; and to develop recommendations to the provincial Executive Council for decisions in the future that will establish a sustainable funding and governance framework for the Corporation.

REPORT ON PERFORMANCE

REPORT ON PERFORMANCE

Overall, in the course of the year BC Transit met or exceeded major targets within each of its three goal areas: service delivery; community development; and funding and governance.

Record ridership demonstrated the success of BC Transit's service delivery strategies. Through selective service reallocations, optimization and innovations — including the introduction of new community bus services — service productivity improved. Market-specific programs and promotions, including U-Pass bus programs targeted to universities and colleges, and other employer and community partnerships, attracted new riders to transit. Services provided were safe and cost-effective, as a result of a continued emphasis on driver training, province-wide strategic procurement and administrative cost-control measures.

BC Transit's planning program helped local governments meet their service and community development priorities. A limited number of service enhancements were implemented in response to local requests, and BC Transit worked with the Capital Regional District on a 20-year transportation strategy (Travel Choices) which has been approved. Throughout the year several initiatives designed to reduce the environmental impact of urban transportation began or advanced, including the exploration of alternate fuels and technologies for transit buses — biodiesel; hybrid diesel-electric; and hydrogen fuel cell.

With respect to funding and governance, BC Transit's efforts, in collaboration with many others in the industry, helped secure a federal commitment to supporting public transportation. By year end, the federal government had announced the framework for its "New Deal for Cities and Communities", which will include funding dedicated to improving transit infrastructure. Throughout the year, members of the BC Transit Board, and senior executives, carried on a dialogue with local government representatives around the province. This exchange helped ensure municipalities were informed of the status of funding and other issues, and enabled the BC Transit Board to stay abreast of transit priorities regionally.

The following pages summarize in tabular form the results achieved for 2004/05 as compared to targets set out in the Corporation's 2004-2007 Service Plan.

GOAL 1 – SERVICE DELIVERY

Maximize the efficient, cost-effective and innovative use of resources in the provision of safe customer-oriented services to meet present and evolving market demands

1. OBJECTIVE: **Deliver core services**

Strategy A . Ongoing reallocation from lower to higher productivity services

Target : Improvement in average rides/hour program-wide
Result : Rides/hour = 24.13 in 2004/05, up from 24.07 in 2003/04

Strategy B. Optimizing balance between the market and the vehicle, and between the market and type of service delivery (e.g. community shuttle, bus rapid transit)

Target : Increasing average vehicle load factor through increased use of high capacity and community shuttle vehicles and services
Result : Community bus service introduced in Nanaimo, Kelowna and Victoria. Bus Rapid Transit plan, the K-Line, finalized as part of the Central Okanagan Smart Transit Plan. Nine additional double deck buses being delivered to Victoria at year end adding 14-18% seated capacity for same number of trips on the three major routes serving University of Victoria and Camosun College.

2. OBJECTIVE: **Improve resource utilization, cost containment, revenue maximization and workforce productivity**

Strategy A. PSEC guidelines for employee negotiations

Target : Zero change in net compensation for VRTS
Result : 2- year agreements meeting target with unions representing operations, maintenance and administration staff at BC Transit - Victoria

Strategy B. Maintenance cost control

Target : On average, maintenance running repair costs increase less than the rate of inflation for VRTS over plan period
Result : Maintenance running repair costs increased by 4% in Year 1. This increase, which is above the rate of inflation, was due to a reduction in third party recoveries in 2004/05.

Strategy C. Strategic purchasing initiatives

Target : Use private sector expertise to identify lowest price purchasing strategies target below current price
Result : Private sector proposals for alternate fuel purchasing confirmed current practices offer best value. Several new software programs have been put in place to

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Result: Private sector proposals for alternate fuel purchasing confirmed current practices offer best value. Several new software programs have been put in place to

improve the efficiency and timeliness of BC Transit's purchasing processes. New sources for vehicle parts have been secured that will provide a more stable supply line at reduced cost.

Strategy D. Sustainable funding for capital asset management program

Target : Enhanced reporting/tracking to reduce the % of assets beyond economic life
Result : Implementation and integration of Municipal Systems e-billing system and financial and work management systems providing improved reporting/tracking of assets for improved life cycle asset managment.

Strategy E. Info technology investments /administrative cost control

Target : All key business processes integrated into the core Enterprise System by Year 2
Result : Implemented and integrated several corporate enterprise databases and applications including Finance and work management, Human Resources, pay roll, and electronic invoicing. Work plan has been adopted to complete this process in Year 2.

Strategy F. RFP process refinement

Target : Enhanced accountability in service support/facility management requirement for contract operators
Result : Initial discussion on enhanced agreement structure for contract operators using eight BC Transit-owned or leased facilities. Work in progress Year 2.

Strategy G. Improve fare security and flexibility with new technology

Target : Implement new fare technology in all MS Tier 1 systems by Year 3 (subject to local approval)
Result : Project proposal developed and submitted for federal funding support.

Strategy H. Reduce fuel consumption through SmartDriver Fuel Sense Program

Target : Reduction of 3% in fuel consumption per km –VRTS in Year 1, MS – Tier 1 in Year 2
Result : SmartDriver program initiatives in Tier 1 Municipal Systems, with implementation beginning in 2005/06. SmartDriver monitoring and evaluation underway in Victoria. New fuel management system will provide added information necessary for tracking of program results.

3. OBJECTIVE: **Improve transit safety for passengers and transit workers, and reduce the costs of accidents**

Strategy A. Reduce workplace and customer accidents

Target 1: VRTS – reduction in employee/workplace accidents below 2003/04 actual

Result 1: WCB Wage Loss Claims/100 Person Years of Work - improved with reduction to 6.94 from 8.57. WCB Medical Aid Claims/Person Years of Work - improved, with reduction to 1.4 from 1.75.

Target 2: All systems - reduction in vehicle accidents and passenger injuries - reduction of 5% by 2005/06

Result 2: BC Transit-Victoria Preventable Vehicle Accidents/1Million Kilometers - rose from 3.68 to 4.22 (2002/03 "baseline" year was 4.85). BC Transit - Victoria Preventable Passenger injuries/1 Million Boarding's - rose from "0" to 1.0 (1.0 in 2002/03, the baseline year.).

Strategy B. Incentive-based insurance programs in contracted operations

Target : Improve premium rebate rates

Result : 15 contract operating companies now have an incentive-based insurance program. They have increased their ICBC premium rebates, on average, by 7% because of fewer claims.

4. OBJECTIVE: **Implement high priority service improvements and enhancements**

Strategy A. New services linking small communities/rural areas

Target : Develop implementation strategies for six new services in rural areas

Result : Implementation strategy developed, in consultation with local governments. On-going efforts to secure participation of all partners.

Strategy B. Developing new partnerships to support new services

Target : Implement three new partnerships per year

Result : New partnerships include *Let's Bus It* multilingual guide in the Nanaimo Region, University College of the Fraser Valley, and Sliammon First Nation near Powell River.

Strategy C. 2010 Winter Olympics public transportation planning for Whistler local component

Target : Whistler Preliminary Transportation Operations Plan by end of Year 3

Result : Discussions initiated with VANOC staff to establish a Memorandum of Understanding (MoU) on the role of BC Transit in the 2010 Games. The MoU will include plans for alternate fuel and new transit technology, plus the fleet and service plans for Whistler.

5. OBJECTIVE: **Identify and target services to new and growing markets**

Strategy A. Longer term examination of strategic market growth opportunities

Target : Implement three new UPass programs over three years
Result : Ongoing discussion in Prince George and Nanaimo. Detailed U-Pass proposal is under development in Kelowna.

Strategy B. Develop and package new tariff products/fare media

Target : Launch UPass type program at high school level in VRTS by Year 2
Result : Youth Pass program expanded significantly. No external funding was secured to pilot program at year-end.

Strategy C. Develop strategies to link to government priorities: post-secondary education and training, job creation

Target : Demonstration of direct buy fare sales in one location
Result : Negotiations underway with two major public employers at year end. UVic direct subsidy for 4,000 staff approved for implementation September 2005.

GOAL 2 – COMMUNITY DEVELOPMENT

Plan and deliver transit services that meet local smart-growth priorities, furthering the development of safe, healthy communities, and a sustainable environment.

1. OBJECTIVE: **Identify and adopt new technologies to enhance customer service, environmental quality and transit's community benefits**

Strategy A. Active participation in public/private alliances supporting emerging technologies

Target : Complete Canadian Transportation Fuel Cell Alliance major study by end of Year 1
Result : Study completed and published.

Strategy B. Partner in federally funded alternative fuel studies (Kelowna and Whistler)

Target : 2 studies - Year 1; 1 study - Year 2
Result : Studies completed and published.

Strategy C. Identify funding partners and resources to commence implementation of hybrid/diesel electric bridging technology

Target : Secure funding partner for hybrid bus technology implementation
Result : Federation of Canadian Municipalities (FCM) submission being restructured at year end to meet program eligibility criteria.

Strategy D. Identify next steps in Ballard fuel cell engine research development and testing

Target : Complete fuel cell engine testing and review final report from Ballard with project partners. Develop plan by end of Year 1
Result : Ballard Fuel Cell engine test concluded with further development ongoing with BC Transit as a member of the "Fuel Cell Bus Club" in conjunction with the Clean Urban Transport for Europe (CUTE)

Strategy E. Introduce real time customer information for handyDART pick-up and dispatch

Target : Increase in ridership/ handyDART productivity through federally cost shared project in Victoria Region
Result : BC Transit succeeded in acquiring $500,000 in funding support from Transport Canada, including $250,000 under its Intelligent Transportation Systems (ITS) Plan. Underway in early 2005, project is targeted for completion in 2006.

GOAL 2 – COMMUNITY DEVELOPMENT

Plan and deliver transit services that meet local smart-growth priorities, furthering the development of safe, healthy communities, and a sustainable environment.

1 OBJECTIVE: **Identify and adopt new technologies to enhance customer service, environmental quality and transit's community benefits**

Strategy A. Active participation in public/private alliances supporting emerging technologies

Target : Complete Canadian Transportation Fuel Cell Alliance major study by end of Year 1

Result: Study completed and published.

Strategy B. Partner in federally funded alternative fuel studies (Kelowna and Whistler)

Target : 2 studies - Year 1; 1 study - Year 2

Result: Studies completed and published.

Strategy C. Identify funding partners and resources to commence implementation of hybrid/diesel electric bridging technology

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Result: Federation of Canadian Municipalities (FCM) submission being restructured at year end to meet program eligibility criteria.

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Result: Ballard Fuel Cell engine test concluded with further development ongoing with BC Transit as a member of the "Fuel Cell Bus Club" in conjunction with the Clean Urban Transport for Europe (CUTE)

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Result: BC Transit succeeded in acquiring $500,000 in funding support from Transport Canada, including $250,000 under its Intelligent Transportation Systems (ITS) Plan. Underway in early 2005, project is targeted for completion in 2006.

2. OBJECTIVE: **Support regional growth strategies, community planning initiatives and municipal empowerment**

Strategy A. Continue to deliver transit planning programs that satisfy local priorities

Target : Complete annual service plans in all systems and major 5-Year Development and/or Strategic Plan for VRTS and Tier 1 MS at least once in 3-year plan cycle

Result : Annual service planning process completed in VRTS and all transit systems in the Municipal Systems Program. Participated in Central Okanagan Smart Transit Plan which was completed, including Transit-oriented development guidelines. Draft long range transit business plans prepared in Cowichan Valley and Sunshine Coast. CRD Travel Choices strategy was adopted.

Strategy B. Support local TDM (transportation demand management) initiatives

Result : Supporting federal government "One-Tonne Challenge" projects in numerous communities

3. OBJECTIVE: **Broaden environmental education and climate change efforts through partnerships with all levels of government, and with non-governmental organizations**

Strategy A. Environmental education and public transit promotions – e.g. CUTA's VIP program, community energy conservation planning and Travel Smart program

Target : Work with CRD and community representatives to formalize employer-based TDM initiative in VRTS

Result : CRD to undertake TDM development activities following adoption of Regional Transportation Strategy (Travel Choices). RTS approved by CRD Board March 2005.

Strategy B. Expand Clean Air Day partnership activities with Environment Canada

Target : Expand annual Clean Air Day program to an additional 4 communities by Year 1

Result : In cooperation with funding partners, Environment Canada and Minstry of Water, Lands and Air Protection, Clean Air Day programs were expanded to an additional 8 communities

GOAL 3 — FUNDING AND GOVERNANCE

Support the work of the provincial government in developing a new, sustainable long-term funding and governance structure for public transit in BC.

1. OBJECTIVE: **Support the provincial government in defining sustainable new funding arrangements and an accompanying governance framework**

Strategy A. Support public consultation regarding transit funding and governance by local goverment and the province, and pending outcome, work with local government partners to implement flex-funding to maintain core services

Target : On-going
Result : 12 flex-funding partnerships in place in 2004/05.

2. OBJECTIVE: **Support local government partners in their efforts to secure an agreement for federal funding for public transit**

Strategy A. Coordinate advocacy efforts with CUTA, FCM and others

Target : Participate in/support all UBCM, FCM and CUTA lobby activities targeting federal support for cities/transportation
Result : Support of CUTA's advocacy campaign including involvement in CUTA Board and Committees, participation in two government relations days in Ottawa. Worked with Ministry of Community, Aboriginal and Women's Services to position public transit's role in the UBCM/provincial proposal on the "New Deal for Cities and Communities". This was subsequently reflected in an Agreement in Principle announced late in the fiscal year.

Strategy B. Work with municipal partners to pursue funding under the new Rural Municipal Infrastructure Fund

Target : Work with municipal funding partners to submit at least two proposals annually for federal funding
Result : Federal funding proposals submitted under the Opportunities Envelope (Smart Travel), and the FCM Green Municipal Fund (Hybrid Buses)

Strategy C. Pursue funding under any new federal transit support programs

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PERFORMANCE AND FINANCIAL SUMMARY TABLES

BC Transit Performance and Financial Summary

Table 1 presents a corporate budget and performance summary for BC Transit for the year under review compared to the actual results of the prior two years. These results are compared to the 2004/05 Service Plan budget. The approved 2005/06 – 2007/08 BC Transit Service Plan's targets for the next three years are also provided. Reference BC Transit's website for this Service Plan:
http://www.bctransit.com/corporate/general_info/annual_reports.cfm#service_plan
Expenditures of $124.3 million were 1% above the final Board-approved budget of $123.1 million. The Board budget was not formally updated to include the wheelchair ramp retrofit program and the Sea to Sky pilot project. These projects were approved late in the fiscal year and these supplementary funds aggregate to $1.2 million. Expenditures were up 4% compared to 2003/04, primarily due to increased operating costs associated with the 2.8% increase in level of service, increased expenditures for debt servicing and vehicle maintenance costs. Maintenance costs include one-time expenditures for the ramp retrofit program and the final year of the Accelerated Maintenance Program (AMP). Overall, the average cost per hour increased 1% versus the prior year.

Revenue of $45.0 million for the year increased $3.5 million versus the prior year, and exceeded the Board budget target by 3%. Operating revenue consists primarily of passenger fares, and provided 36% of total funding. Transit ridership grew by 3% over 2003/04.

The forecasts forward to 2007/08 are based on corporate financial forecasting models. Ridership estimates are based on industry-standard, statistically valid counting methodologies. Actual results are audited at each fiscal year-end.

The key assumptions underlying the 2005-08 Service Plan forecasts are:

- The 2005/06 forecast includes the effects of the continuation of existing service levels including service annualization.
- Service hours provided in 2006/07 and 2007/08 (Years 2 and 3 of the Plan) remain at the Year 1 level.
- To maintain service levels at the 2005/06 level in Years 2 and 3 of the Plan requires additional funding, which at present is unspecified and uncommitted, totalling $1.1 million in 2006/07 and $1.7 million in 2007/08.
- It should be noted that 2005-08 Service Plan forecasts were prepared prior to the rapid escalation of world petroleum prices in the spring of 2005. Should prices remain at this level ($50-$55 US/barrel), additional funding of $2.8 million/annum would be required to maintain the specified service

Table 1 ***Performance and Financial Summary*** *BC Transit*

(Figures in thousands)

	Actuals			Service Plan Budget	Board Approved Budget	2005/06 - 2007/08 Service Plan		
	2002/03	2003/04	**2004/05**	2004/05	2004/05 Note 1	Budget 2005/06	Budget 2006/07	Budget 2007/08
Financial								
Passenger Revenue	39,106	40,326	**43,804**	42,287	42,601	43,908	44,786	45,544
Advertising Revenue	1,279	1,184	**1,192**	1,170	1,153	902	909	917
Total Revenue	40,385	41,510	**44,996**	43,457	43,754	44,810	45,696	46,461
Operating Costs	103,725	106,716	**110,797**	108,908	108,996	114,409	117,333	118,249
Debt Servicing Note 2	12,139	13,316	**13,519**	14,092	14,065	15,179	16,100	16,812
Total Expenditures Public Transit	115,864	120,032	**124,316**	123,000	123,061	129,588	133,433	135,061
Provincial Initiatives: Fuel Cell	3,050	-	-	-	-			
Total Expenditures	118,914	120,032	**124,316**	123,000	123,061	129,588	133,433	135,061
Provincial Operating Grants Note 2	47,508	46,193	**46,531**	45,483	45,531	47,758	48,264	48,264
Provincial Deferred Revenue Note 3		(735)	**572**	520	735	400		
Municipal Share	71,406	74,574	**77,213**	76,997	76,795	81,430	85,169	86,797
FTEs Note 4	586.9	580.9	**575.3**	586.8	586.8	596.5	599.0	599.0
Capital Expenditures	23,273	6,790	**9,520**	15,383	15,383	24,339	9,900	14,521
Performance								
Service Hours	1,581	1,557	**1,601**	1,580	1,614	1,641	1,641	1,641
Revenue Passengers	37,190	37,490	**38,609**	37,606	38,240	38,624	39,429	40,138

Note 1: 2004/05 Board Approved Budget for conventional was not formally updated to include the Sea to Sky contract ($223,000) or ramp retro-fit project ($1,000,000).

Note 2: Provincial Share is operating contribution only and does not include the grant from the Provincial Government for its share of debt service costs. The provincial share of debt service expenditures is funded directly by the Ministry of Transportation. In 2004/05, the Ministry funded approximately $9.6 million of debt service costs attributable to the Victoria Regional Transit System and the Municipal Systems Program. In addition, the Ministry funded debt service costs for the SkyTrain Expo Line guideway, and West Coast Express assets owned by BC Transit.

Note 3: Deferred revenue received in March 2004 from the Provincial Government for the 2-year Accelerated Maintenance Program completing in March 2005. 2005/06 budget includes unutilized provincial share from prior years.

Note 4: Annual average. Includes employees working on capital projects.

Victoria Regional Transit System

BC Transit plans and directly operates the conventional bus system in Greater Victoria to meet service levels established by the Victoria Regional Transit Commission. The region's custom transit system is contracted to a private company, Farwest handyDART Services Inc.

Overall, transit service in the Victoria Regional Transit System was below the planned service level, but ridership targets were exceeded in both the conventional and custom systems. Total expenditures, including debt servicing, were fractionally under the Board-approved budget. Total revenue collected was higher than budget by 3%, attributable primarily to higher passenger revenue in the conventional system. **Table 2** presents performance and financial summary data for the VRTS for the year under review compared to prior years and the 2005-08 Service Plan projections. The measures selected are the standard key financial and performance measures for the public transit industry.

Table 2 ***Performace and Financial Summary*** *Victoria Regional Transit System*
(Figures in thousands, except performance ratios)

	Actuals			Service Plan Budget	Board Approved Budget	2005/06 - 2007/08 Service Plan		
	2002/03	2003/04	**2004/05**	2004/05	2004/05 Note	Budget 2005/06	Budget 2006/07	Budget 2007/08
VICTORIA - CONVENTIONAL								
Financial								
Passenger Revenue	21,279	21,633	**23,707**	23,452	22,955	23,827	24,206	24,458
Advertising Revenue	880	855	**856**	856	856	600	600	600
Total Revenue	22,159	22,488	**24,563**	24,308	23,811	24,427	24,806	25,058
Operating Costs	43,720	44,887	**46,200**	46,176	45,827	47,691	49,000	48,603
Debt Servicing	6,376	6,863	**6,977**	7,433	7,433	8,396	8,841	9,185
Total Expenditures	50,096	51,750	**53,177**	53,609	53,260	56,087	57,841	57,788
Performance								
Service Hours	570	559	**560**	569	568	582	582	582
Revenue Passengers	19,197	19,350	**19,613**	19,589	19,527	19,580	19,891	20,099
Revenue Passengers per Service Hour	33.7	34.6	**35.0**	34.4	34.4	33.6	34.2	34.5
Total Cost Recovery	44.2%	43.5%	**46.2%**	45.3%	44.7%	43.6%	42.9%	43.4%
Operating Cost per Service Hour	$76.75	$80.37	**$82.44**	$81.15	$80.62	$81.94	$84.19	$83.51
Operating Cost per Revenue Passenger	$2.28	$2.32	**$2.36**	$2.36	$2.35	$2.44	$2.46	$2.42
VICTORIA - CUSTOM								
Financial								
Passengers Revenue	326	322	**362**	319	350	350	351	351
Advertising Revenue	-	-	-	-	-	-	-	-
Total Revenue	326	322	**362**	319	350	350	351	351
Operating Costs	4,629	4,945	**4,928**	5,008	4,858	5,702	5,877	6,024
Debt Servicing	225	257	**262**	279	279	267	325	360
Total Expenditures	4,854	5,202	**5,190**	5,287	5,137	5,969	6,202	6,384
Performance								
Service Hours	98	101	**108**	106	106	110	110	110
Revenue Passengers	337	353	**368**	375	366	387	391	394
handyDART Passengers	275	285	**293**	297	305	306	308	308
handyDART Passengers per Service Hour	2.8	2.8	**2.7**	2.8	2.9	2.8	2.8	2.8
Total Cost Recovery (Van only)	7.1%	6.6%	**6.9%**	6.4%	6.7%	6.1%	5.9%	5.7%
Operating Cost per Service Hour (Van only)	$45.06	$46.19	**$46.07**	$44.66	$46.25	$49.35	$50.89	$52.23
Operating Cost per Revenue Passenger	$13.73	$14.02	**$13.40**	$13.35	$13.26	$14.73	$15.03	$15.29

Note 1: 2004/05 Board Approved Budget was not formally updated to include the ramp retro-fit project ($200,000).

Victoria Conventional Transit

Conventional transit in the Victoria region carried 19.6 million passengers in 2004/05, above target and 1.3% higher than the prior year. This ridership growth is driven by high demand on routes serving educational institutions and major commuter corridors. Service hours delivered were 8,000 or 1% fewer than budget but slightly above the prior year's actual.

Expenditures for conventional transit were $83,000 below budget as a result of a lower delivered hours and debt service charges. Year-over-year expenditures were up 3% due primarily to additional vehicle maintenance, including the wheelchair ramp retrofit program, the final year of the Accelerated Maintenance Project (AMP), and debt service.

Total farebox cost recovery was 46.2%, above budget (3%) and the prior year (6%). This was the result of both an increase to the cash fare and passes in April of 2004 and stronger than forecast sales of monthly passes and tickets.

Productivity, measured as passengers per service hour, exceeded budget by 2%, reflecting ridership increasing at a faster rate than service hours. The operating cost per passenger was on budget, and 1% above the prior year.

The operating cost per hour was $82.44 per hour, 2% greater than budget. This was primarily a result of one-time maintenance expenditures and fixed costs averaged over slightly fewer than budgeted service hours.

Victoria Regional Custom Transit

The Victoria Regional handyDART service carried a total of 293,000 passengers, and provided a further 75,000 rides by taxi, for a total of 368,000 custom transit passengers. Total ridership was 4% above the prior year and 1% above budget due mostly to strong Taxi Saver program usage. Van ridership, below budget by 4%, increased over the prior year by 3%. The growth in the custom program's ridership is attributed largely to demographic factors associated with a large senior's population and the increased demand for accessibility. Revenue is 12% higher than the prior year due to a fare increase throughout the transit system in April 2004.

Service hours delivered were 2,000 above budget (2%) and 7% above the prior year. Custom transit expenditures were $53,000 or 1% above budget due to increased maintenance cost and

taxi supplement expenses. The results for 2004/05 also included a one-time credit for Taxi Saver liability reduction of $335,000.

Excluding the custom transit passengers who utilize the Taxi Saver program, the handyDART van rides per hour was slightly below the prior year. The operating cost per passenger, also excluding the Taxi Saver program, was above budget by 1% but below the prior year by 4%.

Municipal Systems Program

In 2004/05, stringent cost control and supplementary provincial and local government funding maintained core transit services in most of the Program's 69 transit systems. In 11 cases, service expanded above 2003/04 levels in response to favourable market conditions with positive ridership results. These new services were funded by reallocating savings in BC Transit and local government shares from the enhanced GST rebate, local property taxes, passenger revenue and community partnerships. Overall, there was a 4% increase in service delivered over 2003/04, for a total of 933,000 service hours. The budget for 2004/05 originally called for a service level of 940,000 service hours.

Total costs were $65.95 million, over budget by $1.29 million. The budget overage consists primarily of expenditures for the Sea to Sky pilot project and the wheelchair ramp retrofit program. These projects were initiated late in the year and the corporate budget was not formally amended to include these expenditures. Revenue was $20.07 million, over budget by $478,000.

Table 3 presents performance and financial summary data for the Municipal Systems Program for the year under review compared to prior years and the Service Plan projections. The measures selected are the standard key financial and performance measures for the public transit industry.

Table 3 ***Performance & Financial Summary***

Municipal Systems Program (figures in thousands, except performance ratios)

	Actuals			Service Plan Budget	Board Approved Budget	2005/06 - 2007/08 Service Plan		
	2002/03	2003/04	**2004/05**	2004/05	2004/05 Note 1	Budget 2005/06	Budget 2006/07	Budget 2007/08
MUNICIPAL SYSTEMS PROGRAM - CONVENTIONAL								
Financial								
Passengers Revenue	15,796	16,521	**17,707**	16,639	17,343	17,746	18,230	18,722
Advertising Revenue	381	314	**321**	302	284	289	296	304
Total Revenue	16,177	16,836	**18,028**	16,941	17,627	18,035	18,527	19,026
Operating Costs	43,766	44,969	**47,683**	45,794	46,342	48,154	49,365	50,301
Debt Servicing	4,804	5,417	**5,656**	5,612	5,660	5,636	5,934	6,246
Total Expenditures	48,570	50,386	**53,339**	51,406	52,002	53,790	55,299	56,547
Performance								
Service Hours	674	662	**692**	664	693	700	700	700
Revenue Passengers	16,409	16,534	**17,347**	16,346	17,040	17,342	17,823	18,312
Revenue Passengers per Service Hour	24.3	25.0	**25.1**	24.6	24.6	24.8	25.5	26.2
Total Cost Recovery	33.3%	33.4%	**33.8%**	33.0%	33.9%	33.5%	33.5%	33.6%
Operating Cost per Service Hour	$64.90	$67.97	**$68.96**	$68.93	$66.88	$68.79	$70.52	$71.86
Operating Cost per Revenue Passenger	$2.67	$2.72	**$2.75**	$2.80	$2.72	$2.78	$2.77	$2.75
MUNICIPAL SYSTEMS PROGRAM - CUSTOM/PARA								
Financial								
Passengers Revenue	1,705	1,850	**2,027**	1,877	1,953	1,985	1,999	2,013
Advertising Revenue	19	14	**15**	12	13	13	13	13
Total Revenue	1,724	1,864	**2,042**	1,889	1,966	1,998	2,012	2,026
Operating Costs	11,610	11,915	**11,985**	11,930	11,969	12,862	13,091	13,321
Debt Servicing	734	779	**625**	768	693	880	1,000	1,021
Total Expenditures	12,344	12,694	**12,610**	12,697	12,662	13,742	14,091	14,342
Performance								
Service Hours	239	235	**241**	241	247	249	249	249
Revenue Passengers	1,247	1,253	**1,281**	1,296	1,307	1,315	1,324	1,333
Van Passengers	1,084	1,098	**1,122**	1,138	1,152	1,161	1,170	1,179
Van Passengers per Service Hour	4.5	4.7	**4.7**	4.7	4.7	4.7	4.7	4.7
Total Cost Recovery (Van only)	15.0%	15.7%	**16.9%**	16.0%	16.3%	15.6%	15.3%	15.1%
Operating Cost per Service Hour (Van only)	$45.08	$47.25	**$47.50**	$45.94	$46.17	$48.02	$48.94	$49.86
Operating Cost per Revenue Passenger	$9.31	$9.51	**$9.36**	$9.21	$9.16	$9.78	$9.89	$9.99

Note 1: 2004/05 Board Approved Budget for conventional was not formally updated to include the Sea to Sky contract ($223,000) or ramp retro-fit project ($800,000).

Municipal Systems Program Conventional Transit

The 24 conventional transit systems carried 17.3 million passengers, exceeding the Board budget forecast by 2%, and up 5% (813,000 passengers) compared to the prior year. There was strong growth as a whole for Tier 1 and 2 Municipal Systems, while Tier 3 systems declined slightly. New or re-allocated services were targeted at key market groups including the following:

- Kamloops ridership up 359,000 passengers (16%), fueled by the successful U-Pass.
- Whistler WAVE ridership up 115,000 passengers (4%), due to increased frequency between the two mountain bases, and improved access to summer recreational activities.
- Kelowna Regional ridership up 102,000 passengers (4%), due to an increase in the post-secondary student markets and an improvement to schedule reliability.
- Campbell River, Comox Valley and Sunshine Coast all recorded double-digit increases in ridership (totaling 121,000 more passengers) on expanded or re-designed services

The increases were offset by ridership losses in some communities, including Kootenay Boundary (due to decreased student enrollment) and Nelson (a ten-week lock out of employees including municipal transit staff).

In total, 692,000 conventional service hours were delivered, slightly below the Board approved budget by 0.1%, but up 5% from the prior year due to service expansions. The most substantial service increases were in Central Fraser Valley, Comox Valley, Kamloops, Prince George, Sunshine Coast and Whistler. Modest increases occurred in the Kelowna Regional and Nanaimo Regional systems and the Sea to Sky commuter service pilot project.

Expenditures for conventional transit were $53.34 million including the ramp retro-fit project and the Sea to Sky project, 3% above budget. Vehicle maintenance expenditures accounted for this overage. The year-end total was up 6% from 2003/04, again, primarily due to higher maintenance costs, the one-time Accelerated Maintenance Program for midlife engine overhauls, and the ramp retrofit program. Fare and advertising revenues were $18.03 million, above budget by 2% and up 7% compared to the year prior.

Average ridership performance was 25.1 passengers per service hour, which exceeded the budget target of 24.6 by 2% and the prior year's figure by 0.4%. The average operating cost per hour was $68.96, unfavourable to budget by 3% due primarily to higher maintenance costs. The operating cost per passenger was $2.75, favourable to budget by 1% and cost recovery was 33.8%, slightly below the budget amount of 33.9% by 0.3%.

Municipal Systems Program Custom and Paratransit

The Municipal Systems Program custom and paratransit systems carried 1.28 million passengers in 2004/05, below budget by 2% but up 2% from the prior year. All the growth was in van and taxi supplement passengers, with Taxi Saver passengers showing a slight decline from the prior year. Of the fourteen custom transit systems, Kamloops and Kelowna Regional accounted for almost 90% of the year-over-year increase in passengers. Among the thirty-one paratransit systems, Comox Valley, Kimberley, North Okanagan, Quesnel, Shuswap Regional, Smithers & District, Terrace Regional and Williams Lake all posted double-digit ridership increases. These increases were offset in part by declines in other areas, including Castlegar Regional, Hazeltons' Regional, Okanagan-Similkameen, Revelstoke, Summerland and Sunshine Coast based on local market factors.

Service hours delivered were 2% below budget but above last year's total hours by 3%. Custom and paratransit expenditures were $12.6 million or 0.4% below budget. Revenue from the program was $2.04 million, above budget by 4%.

Van passengers carried per service hour (4.7) was on budget and continues to represent one of the highest productivity rates for this kind of service in Canada. The van operating cost per hour was $47.50, above budget by 3%. Service hours delivered were below budget by 2% (6,000 hours). The operating cost per van passenger was 2% above budget. Cost recovery was 4% above budget as a result of favourable passenger revenue received. The 2004/05 results included a one-time cost recovery of $339,000 for Taxi Saver liability reduction.

BC Transit Five-Year Historical Comparison of Key Financial and Operating Results

Table 4 presents key financial and operating results for BC Transit on a corporate basis for the past five fiscal years.

Table 4 ***Key Financial & Operating Results*** *BC Transit*

	2000/01	2001/02	2002/03	2003/04	**2004/05**
VICTORIA & MUNICIPAL SYSTEMS PROGRAM COMBINED					
Financial					
Passenger Revenue	36,011	38,059	39,106	40,326	**43,804**
Advertising Revenue	1,299	1,289	1,279	1,184	**1,192**
Total Revenue	37,310	39,349	40,385	41,510	**44,996**
Operating Costs	99,203	102,585	103,725	106,716	**110,797**
Debt Servicing	8,998	10,671	12,139	13,316	**13,519**
Total Expenditures Public Transit	108,201	113,255	115,864	120,032	**124,316**
Provincial Initiatives: Fuel Cell		1,525	3,050		
Total Expenditures	108,201	114,780	118,914	120,032	**124,316**
Performance					
Service Hours	1,559	1,568	1,581	1,557	**1,601**
Revenue Passengers	34,657	35,097	37,190	37,490	**38,609**
Revenue Passengers per Service Hour	22.2	22.4	23.5	24.1	**24.1**
Total Cost Recovery	34.5%	34.7%	34.9%	34.6%	**36.2%**
Operating Cost per Service Hour	$63.64	$65.42	$65.62	$68.54	**$69.20**
Operating Cost per Revenue Passenger	$2.86	$2.92	$2.79	$2.85	**$2.87**

Victoria Regional Transit System

Table 5 presents the VRTS' key financial and operating results for the past five fiscal years. (Note: Results reflect a 14-day labour disruption in April 2001.)

Table 5 ***Key Financial & Operating Results*** *Victoria Regional Transit System*
(Figures in thousands, except performance ratios)

	2000/01	2001/02*	2002/03	2003/04	2004/05
Victoria - Conventional					
Financial		* 14 day strike			
Passenger Revenue	20,179	20,615	21,279	21,633	**23,707**
Advertising Revenue	835	888	880	855	856
Total Revenue	21,014	21,503	22,159	22,488	**24,563**
Operating Costs	43,415	43,387	43,720	44,887	46,200
Debt Servicing	4,558	5,618	6,376	6,863	6,977
Total	47,973	49,005	50,096	51,750	**53,177**
Performance					
Service Hours	603	568	570	559	**560**
Revenue Passengers	18,738	17,937	19,197	19,350	**19,613**
Revenue Passengers per Service Hour	31.1	31.6	33.7	34.6	**35.0**
Total Cost Recovery	43.8%	43.9%	44.2%	43.5%	**46.2%**
Operating Cost per Service Hour	$71.97	$76.32	$76.75	$80.37	**$82.44**
Operating Cost per Revenue Passenger	$2.32	$2.42	$2.28	$2.32	**$2.36**
Victoria - Custom					
Financial					
Passenger Revenue	391	350	326	322	**362**
Advertising Revenue	-	-	-	-	-
Total Revenue	391	350	326	322	**362**
Operating Costs	4,147	4,478	4,629	4,945	**4,928**
Debt Servicing	148	206	225	257	**262**
Total	4,295	4,684	4,854	5,202	**5,190**
Performance					
Service Hours	94	100	98	101	**109**
Revenue Passengers	295	331	337	353	**368**
handyDART Passengers	246	274	275	285	**293**
handyDART Passengers per Service Hour	2.6	2.7	2.8	2.8	**2.7**
Total Cost Recovery (Van only)	9.4%	7.8%	7.1%	6.6%	**6.9%**
Operating Cost per Service Hour (Van only)	$42.71	$42.44	$45.06	$46.19	**$46.07**
Operating Cost per Revenue Passenger	$14.06	$13.52	$13.73	$14.02	**$13.40**

Municipal Systems Program

Table 6 presents the Municipal Systems Program's key financial and operating results for the past five fiscal years. (Note: Results reflect a 15-week labour disruption in Prince George in April 2001.)

Table 6 ***Key Financial & Operating Results*** *Municipal Systems Program*
(Figures in thousands, except performance ratios)

	2000/01	2001/02*	2002/03	2003/04	2004/05
Municipal Systems Program - Conventional					
		* 15-week strike, Prince George			
Financial					
Passenger Revenue	13,903	15,377	15,796	16,521	17,707
Advertising Revenue	450	388	381	314	321
Total Revenue	14,353	15,765	16,177	16,836	18,028
Operating Costs	40,810	43,070	43,766	44,969	47,683
Debt Servicing	3,804	4,217	4,804	5,417	5,656
Total	44,614	47,287	48,570	50,386	53,339
Performance					
Service Hours	639	664	674	662	692
Revenue Passengers	14,492	15,567	16,409	16,534	17,347
Revenue Passengers per Service Hour	22.7	23.4	24.3	25.0	25.1
Total Cost Recovery	32.2%	33.3%	33.3%	33.4%	33.8%
Operating Cost per Service Hour	$63.91	$64.87	$64.90	$67.97	$68.96
Operating Cost per Revenue Passenger	$2.82	$2.77	$2.67	$2.72	$2.75
Municipal Systems Program - Custom/Para					
Financial					
Passenger Revenue	1,539	1,718	1,705	1,850	2,027
Advertising Revenue	14	14	19	14	15
Total Revenue	1,553	1,732	1,724	1,864	2,042
Operating Costs	10,832	11,649	11,610	11,915	11,985
Debt Servicing	487	629	734	779	625
Total	11,319	12,279	12,344	12,694	12,610
Performance					
Service Hours	223	236	239	235	241
Revenue Passengers	1,132	1,262	1,247	1,253	1,281
Van Passengers	993	1,082	1,084	1,098	1,122
Van Passengers per Service Hour	4.5	4.6	4.5	4.7	4.7
Total Cost Recovery (Van only)	14.7%	15.2%	15.0%	15.7%	16.9%
Operating Cost per Service Hour (Van only)	$45.08	$45.65	$45.08	$47.25	$47.50
Operating Cost per Revenue Passenger	$9.57	$9.23	$9.31	$9.51	$9.36

Comparison to Industry Benchmarks

A recent review of the performance of the Victoria Regional Transit System and Municipal Systems Conventional Program provided the following summary of comparative results based on figures supplied by the Canadian Urban Transit Association (CUTA). These are summarized in the graphs below and on the following pages.

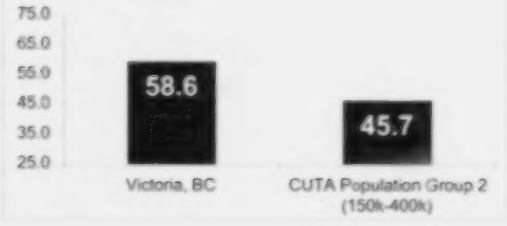
Performance of BC Transit's systems is benchmarked against comparable Canadian transit systems using the most recently available data from CUTA for 2003. CUTA's information is collected using an industry-standard reporting protocol and standardized definitions. The same information is used by Statistics Canada for its "Standard Industrial Classification" (SIC) reports. Performance measures used in this Annual Report are those universally adopted by the North American transit industry.

The results are for the year 2003/04, the most recent year available. The Victoria Regional Transit System conventional service is compared with the CUTA Urban Transit Population Group 2 average (service area population 150,000-400,000). The Victoria custom service is compared with CUTA Specialized Transit Population Group 1 average (service area population greater than 150,000).

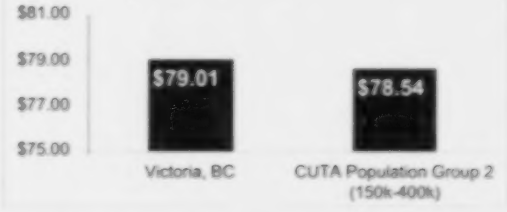
Victoria Regional Transit System – *Conventional Service*

CUTA 2003 Benchmarking

Rides per Capita



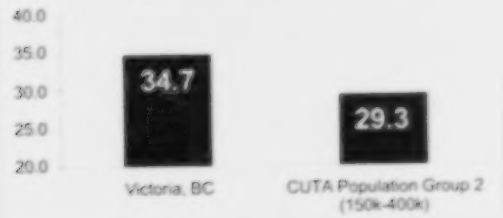
Operating Cost per Total Service Hour



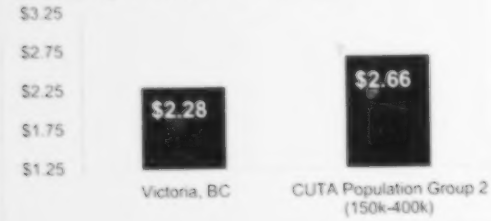
Note: cost per hour based on a standardized definition developed by CUTA for national comparisons

Victoria Regional Transit System – *Conventional Service*
CUTA 2003 Benchmarking

Passengers per Total Service Hour

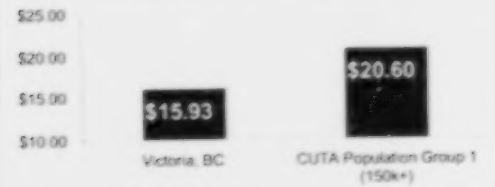


Operating Cost per Passenger

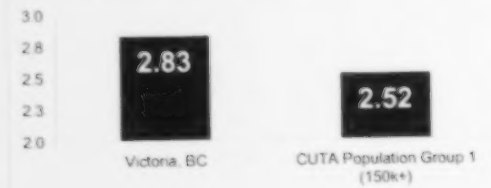


Victoria Regional Transit System – *Custom Service*
CUTA 2003 Benchmarking

Operating Cost per Passenger
Dedicated service, excludes taxi services



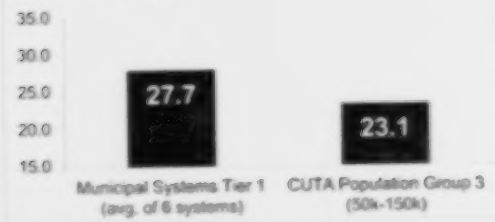
Passengers per Hour
Dedicated service, excludes taxi services



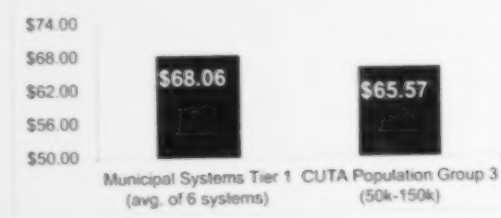
In the case of the Municipal Systems Program, Tier 1 conventional transit systems (those 6 systems with service area populations over 50,000) are compared with the CUTA Urban Transit Population Group 3 (service area population 50,000-150,000). The Municipal Systems custom program averages the 7 largest systems to compare with the CUTA Specialized Transit Population Group 2 (service area population 50,000-150,000).

Municipal Systems– *Conventional Service*
CUTA 2003 Benchmarking

Rides per Capita



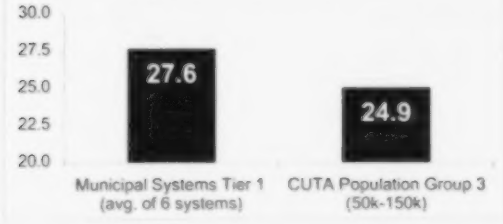
Operating Cost per Total Service Hour



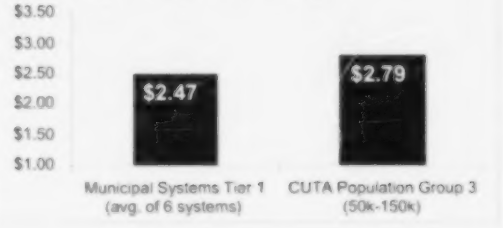
Municipal Systems– *Conventional Service*

CUTA 2003 Benchmarking

Passengers per Total Service Hour



Operating Cost per Passenger

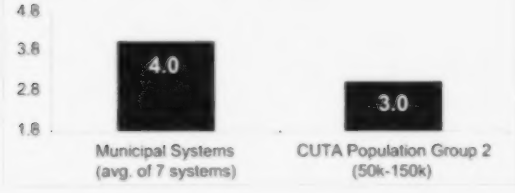


Municipal Systems– *Custom Service*

CUTA 2003 Benchmarking

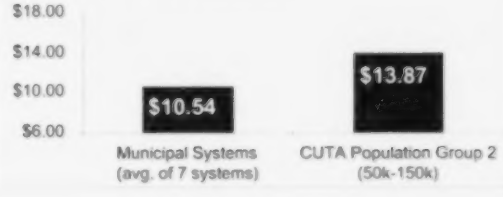
Passengers per Hour

Dedicated service, excludes taxi services



Operating Cost per Passenger

Total service, includes taxi services



ALIGNMENT WITH GOVERNMENT'S STRATEGIC PLAN

Throughout the year BC Transit's programs and services supported the priorities of the provincial government's Strategic Plan.

- ***A strong and vibrant provincial economy*** – BC Transit provided necessary access for citizens to jobs, job retraining, health services and education, and managed its services in an efficient and effective manner.

- ***Safe, healthy communities and a sustainable environment*** — BC Transit contributed to improved environmental quality by helping to reduce traffic congestion, by supporting regional growth strategies, and by developing and testing new environmentally-friendly technologies.

- ***A supportive social fabric*** — BC Transit provided essential access for citizens to community activities, education, retraining and social and health services.

FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Preceding Two Years

One of BC Transit's objectives was to achieve a degree of cost stability in 2003/04 – 2004/05. This objective was achieved despite the cost pressures impacting the transportation industry as a whole. In the years preceding this period, fuel, insurance, vehicle parts and employee benefit rates experienced cost increases significantly greater than the general inflation rate. Virtually all transportation service providers experienced similar cost increases.

However, beginning in 2003/04 BC Transit executed specific strategies that insulated the company from cost pressures affecting other transportation service providers. In May, 2003, BC Transit entered into a two-year fixed price fuel contract that resulted in a savings of $6.0 million versus the best available commercial rack rates. Last fiscal year, the Victoria Regional Transit System entered year one of a two-year collective agreement pursuant to the zero/zero mandate of the Public Sector Employers Council (PSEC). In the same year, employee benefit premium rates were limited to a 1% increase, well below general industry experience. Finally, the captive insurance program, managed jointly with TransLink, allowed BC Transit to self-insure and reinsure risk at rates favourable to general industry experience.

However, maintenance costs continue to be a significant cost concern due to three factors: the accumulation of deferred maintenance from prior years; the increasing complexity of BC Transit's fleet; and a "spike" in major overhaul costs attributable to the fleet age profile. The province assisted in funding these extraordinary maintenance expenditures, including supplementary funding for an accelerated program of major component overhauls and 100% of the cost of the wheelchair ramp retrofit program.

Passenger revenue jumped by 12% over the two-year period, a result of strong growth in demand, fare increases, and the continued reallocation of service to higher-performing routes.

Increasing capital requirements and the cumulative impact of inflation on fleet and facilities replacement costs drove increasing debt service charges. In addition, BC Transit has completed, or is in the process of completing by 2005/06 year-end, the replacement of all the mission-critical Enterprise Resource Management (ERM) systems. General and administrative costs increased reflecting the commencement of license fees for the new ERM systems, certain reorganization costs and reduced recoveries on capital projects.

Forecast for the Two Years Ended March 31, 2007

BC Transit faces significant cost challenges over the next two years. On March 31, 2006 the Victoria Regional Transit System collective agreements expire. To date, the Public Sector Employer's Council has not provided compensation guidelines.

In the Municipal Systems, a total of 18 contracts aggregating $14.6 million expire by March 31, 2007. As discussed in BC Transit's 2005/08 Service Plan, the Municipal Systems' contractors have operated under minimal rate increases for variable hourly costs since 2001/02. However, improved local economic conditions have resulted in more competitive labour markets and upward pressure on wages and the costs of locally purchased goods and services. Recent responses to requests for proposals reflect significantly increased labour rates. With the strong economic outlook for British Columbia, this will be an ongoing challenge.

The most dramatic cost increase will be in the diesel fuel contract. The agreement expiring March 31, 2005 was based on a rate of US$24.68/barrel. In the interim, world prices rose to US$58.00/barrel on March 31, 2005. In addition, refining and transmission capacity have not kept up with demand, resulting in supply constraints and increased refining margins for petroleum companies. On March 31, 2005, BC Transit executed a six month futures contract renewal resulting in a 50% increase in diesel cost/litre versus the prior contract. Escalating fuel prices will be an ongoing challenge simply to maintain core service. This price lift if sustained for the full 2005/06 fiscal year, will add $4.5 million to the annual fuel bill. At the same time, increased ridership reflects continually increasing demand for transit service. BC Transit's response to these cost challenges will include the continued implementation of flexible low-cost community bus service. In addition, BC Transit will continue to execute a fuel hedging strategy designed to acquire fuel at the lowest overall cost while also reducing budget volatility.

Risk and Capacity

During the last two years, a significant risk was addressed through the replacement of BC Transit's Enterprise Resource Management systems. The final stage of this project will complete in 2005/06. Significant fleet replacement requirements occur through 2008/09. These include the anticipated requirement to provide ground transportation in Whistler for the 2010 Olympics. The capital funding necessary to acquire this fleet has not been secured. The "New Deal for Cities and Communities" was recently announced by the Federal government. This provides federal fuel tax revenue that may address capital requirements, particularly in respect

of new environmental and transit priority initiatives. However, terms and conditions relating to this funding have not yet been finalized.

BC Transit is experiencing an increased rate of retirements and some challenges in recruiting for specialized positions. This will likely increase over the coming decade, due to the demographic composition of the workforce. To address this, the Corporation is implementing internal career/skill development plans in targeted areas, utilizing a broader range of recruitment advertising and tools, and reviewing compensation levels to ensure we remain competitive. Workplace wellness initiatives contribute to making BC Transit an "employer of choice", to assist with both recruitment and retention.

AUDITOR'S **REPORT**

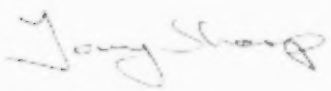
REPORT OF MANAGEMENT
Years ended March 31, 2005 and 2004

The financial statements of British Columbia Transit ("BC Transit") have been prepared by management in accordance with Canadian generally accepted accounting principles. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's system of internal control is adequate.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

R.H. Irwin
President and Chief Executive Officer



Tony Sharp, CA
Vice President, Finance and Chief Financial Officer

kpmg

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Chartered Accountants
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Victoria BC V8W 3Y7

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Telefax (250) 480-3539
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Board of Directors of
British Columbia Transit

We have audited the balance sheets of British Columbia Transit as at March 31, 2005 and 2004 and the statements of operations, changes in net assets, cash flows and changes in Victoria Regional Transit Fund for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

May 20, 2005

BRITISH COLUMBIA TRANSIT

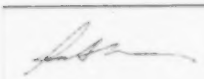
Balance Sheets
March 31, 2005 and 2004 ($000)

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 15,690	$ 8,445
Accounts receivable:		
Municipalities	4,831	6,384
Trade and other	3,089	3,131
Parts inventory	4,674	3,959
Prepaid expenditures	1,014	1,180
	29,298	23,099
Debt sinking funds (note 4)	21,059	15,997
Capital assets (note 5)	169,693	173,613
Capital assets under lease (note 6)	925,945	944,902
Investment in Transportation Property and Casualty Company Inc.	20	20
	$ 1,146,015	$ 1,157,631
Liabilities		
Current liabilities:		
Accounts payable to Province of British Columbia	$ 471	$ 126
Accounts payable and accrued liabilities	23,067	16,335
Notes payable (note 7)	-	3,487
Current portion of long-term debt	2,745	-
Current portion of obligations under capital leases	16	13
	26,299	19,961
Long-term debt (note 8)	95,942	95,204
Obligations under capital leases (note 9)	215	232
Deferred contributions (note 10)	10,373	9,032
Deferred capital contributions:		
Capital assets	74,382	75,772
Capital assets under lease	860,823	876,684
	1,068,034	1,076,885
Net Assets	77,981	80,746
Commitments and contingent liability (note 12)		
	$ 1,146,015	$ 1,157,631

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director



Director

BRITISH COLUMBIA TRANSIT

Statements of Operations

Years ended March 31, 2005 and 2004 ($000)

	2005	2004
Revenue:		
Operations	$ 44,996	$ 41,510
Investment and other income	1,486	1,123
	46,482	42,633
Expenditures:		
Operations and maintenance	100,573	96,749
Administration	8,451	7,997
Interest on long-term debt	6,276	6,327
Amortization of capital assets	12,618	10,118
Vehicle/property leases and taxes	1,831	1,748
Amortization of contributed assets	120	114
	129,869	123,053
Recoveries:		
Contributions from the Province of British Columbia	47,102	45,532
Contributions from municipalities (note 10)	30,877	30,647
Amortization of deferred capital contributions - capital assets	5,185	4,146
	83,164	80,325
Expenditures from transit operations	(223)	(95)
Other:		
Amortization of capital assets under lease	(15,861)	(15,189)
Amortization of deferred capital contributions - capital assets under lease	15,861	15,189
Gain (loss) on disposal of capital assets	103	(19)
	103	(19)
Net expenditures for the year	$ (120)	$ (114)

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Changes in Net Assets

Years ended March 31, 2005 and 2004 ($000)

	General	Investment in capital assets	Total 2005	Total 2004
Balance, beginning of year	$ 985	$ 79,761	$ 80,746	$ 83,505
Net expenditures for the year	(120)	-	(120)	(114)
Return of contribution to the Province	-	(2,645)	(2,645)	(2,645)
Internal transfer	120	(120)	-	-
Balance, end of year	$ 985	$ 76,996	$ 77,981	$ 80,746

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Cash Flows

Years ended March 31, 2005 and 2004 ($000)

	2005	2004
Cash provided by (used for):		
Operations:		
Net expenditures for the year	$ (120)	$ (114)
Items not involving cash:		
Amortization of capital assets	12,618	10,118
Amortization of contributed assets	68	62
Amortization of capital assets under lease	15,861	15,189
Amortization of deferred capital contributions	(21,046)	(19,335)
(Gain) loss on disposal of capital assets	(103)	19
Net changes in non-cash operating working capital:		
Accounts receivable	1,595	(2,415)
Parts inventory	(715)	53
Prepaid expenditures	166	(306)
Accounts payable to Province of British Columbia	345	2
Accounts payable and accrued liabilities	6,732	3,497
	8,123	831
	15,401	6,770
Investing:		
Proceeds from sale of capital assets	2,645	2,765
Additions to capital assets	(8,212)	(6,179)
	(5,567)	(3,414)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(2,645)	(2,645)
Increase in deferred contributions	1,341	2,103
Capital lease payments	(14)	(14)
Increase (decrease) in notes payable	(3,487)	3,487
Increase (decrease) in long-term debt	3,483	(4,266)
Increase in debt sinking funds	(5,062)	(2,951)
Deferred capital contributions received	3,795	3,600
	(2,589)	(686)
Increase in cash and cash equivalents	7,245	2,670
Cash and cash equivalents, beginning of year	8,445	5,775
Cash and cash equivalents, end of year	$ 15,690	$ 8,445

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Changes in Victoria Regional Transit Fund

Years ended March 31, 2005 and 2004 ($000)

	2005	2004
Fund balance, beginning of year	$ 1,031	$ 1,947
Revenue:		
Fuel tax	7,924	7,735
Property tax	9,486	8,072
Interest earned	83	74
	17,493	15,881
	18,524	17,828
Contributions	(15,663)	(16,797)
Fund balance, end of year	$ 2,861	$ 1,031
Fund balance represented by:		
Cash and cash equivalents - held in trust	$ 2,861	$ 1,031

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2005 and 2004 ($000)

1. Purpose:

British Columbia Transit ("BC Transit") was established under the British Columbia Transit Act, as amended in 1998, to operate the urban transit systems in the Province of British Columbia outside of the Greater Vancouver Regional service area. In 2005, BC Transit recovered 46.85% (2004 - 47.01%) of its expenditures from the Province of British Columbia with the balance from transit operations and municipalities.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. The financial position and changes during the year in the funds are set out in the statement of changes in Victoria Regional Transit Fund.

2. Summary of significant accounting policies:

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The significant accounting policies are set out hereunder:

(a) Parts inventory:

Parts inventory is valued at the lower of cost on a first-in first-out basis, and replacement cost. Inventories are recorded net of any obsolescence provisions.

(b) Debt sinking funds:

Debt sinking funds, consisting of pooled investment portfolios and Canada, provincial government and Crown corporation bonds, are recorded at the lower of amortized cost or market, with any premium or discount on purchase being amortized over the term to maturity of each investment.

(c) Capital assets:

(i) All capital assets, except those noted in (ii), (iii) and (iv), are recorded at cost, including capitalized interest as described in note 2(e).

(ii) Capital assets transferred from the Province of British Columbia are recorded at their appraised value. These appraisals were carried out at various dates between June 30, 1979 and August 18, 1987.

(iii) Capital assets acquired from BC Hydro are recorded at their appraised value. These appraisals were carried out at various dates between March 1, 1980 and April 1, 1982.

(iv) Amortization is provided on the basis that results in a matching of these charges with BC Transit's statutory power to recover the cost of the related assets. Contributed assets are not subject to recovery and are amortized over their estimated useful lives. All assets are amortized by the sinking fund method over a period not exceeding their estimated remaining useful lives. Land is not subject to amortization. The assessment of net recoverable amounts is determined by applying the applicable deferred capital contributions to capital costs.

2. Summary of significant accounting policies (continued):

(d) Investment in Transportation Property and Casualty Company Inc.:

BC Transit's 10% interest in Transportation Property and Casualty Company Inc. is recorded on the cost basis of accounting.

(e) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service for transit purposes is capitalized. In 2005, interest of $16 was capitalized (2004 - $102).

(f) Amortization of bond premiums and discounts:

Bond premiums and discounts are amortized on a straight-line basis over the term of the debt.

(g) Revenue recognition:

All sources of revenue are recognized on the accrual basis.

BC Transit follows the deferral method of accounting for contributions. Contributions from third parties for defined purposes are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(h) Deferred capital contributions:

Deferred capital contributions include the unamortized portions of capital asset contributions. Contributions for capital projects are provided by prepaid capital advances from the Province. These prepaid capital advances are recorded by BC Transit as deferred capital contributions and are recognized in the statement of operations and accumulated surplus on the same basis as the related assets are amortized. This matches the amortization of the deferred capital contributions with the expenditures incurred through amortization of the capital assets acquired with the funds.

2. Summary of significant accounting policies (continued):

(i) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trusted pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer contributory defined benefit pension plan with over 58,000 active plan members and approximately 27,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation was at March 31, 2002, and disclosed a $546 million surplus for funding purposes ($929 million as at the previous valuation). The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan in 2005 by BC Transit totaled approximately $1,997 (2004 - $1,965).

(j) Financial instruments:

BC Transit is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to interest rates and cash flow risk) and forward foreign exchange contracts (used to manage foreign currency exposures on foreign currency debt). These instruments are not recognized in the financial statements on inception. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reported periods. Significant areas requiring the use of management estimates include the determination of amortization periods and certain accrued liabilities. Actual results could differ from the estimates. Adjustments, if any, are reflected in operations in the period of settlement.

(l) Income and capital taxes:

BC Transit is exempt from Canadian federal and British Columbia provincial income and capital taxes.

2. Summary of significant accounting policies (continued):

(m) Impairment of long-lived assets:

BC Transit monitors the recoverability of long-lived assets, including capital assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. BC Transit reviews factors such as current market value, future asset utilization and business climate and compares the carrying value of the assets to the future undiscounted cash flows expected to result from the use of the related asset. If such cash flows are less than the carrying value, the impairment charge to be recognized equals the excess.

(n) Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

3. Cash and cash equivalents:

BC Transit considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(a) Major components of cash and cash equivalents are as follows:

	2005	2004
Cash	$ 7,300	$ 3,153
Short-term investments	8,390	5,292
	$ 15,690	$ 8,445

(b) Supplemental cash flow information:

	2005	2004
Cash paid during the year for:		
Interest on long-term debt and notes payable	$ 6,183	$ 6,329
Cash received:		
Interest on investments	1,352	922

4. Debt sinking funds:

Investments held in the sinking funds, including interest earned, are to be used to repay the related debt at maturity.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling $3.4 (2004 - $2.9) were paid directly from individual portfolios to BCIMC.

5. Capital assets:

March 31, 2005	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 6,088	$ -	$ 6,088
Land improvements	1,962	1,045	917
Buildings	23,959	7,230	16,729
Revenue vehicles	188,650	54,000	134,650
Revenue vehicles under capital leases	294	64	230
Equipment	13,134	4,452	8,682
Capital projects in progress	2,397	-	2,397
	$ 236,484	$ 66,791	$ 169,693

March 31, 2004	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 6,088	$ -	$ 6,088
Land improvements	1,962	925	1,037
Buildings	23,365	6,238	17,127
Revenue vehicles	191,027	52,841	138,186
Revenue vehicles under capital leases	294	49	245
Equipment	14,924	5,336	9,588
Capital projects in progress	1,342	-	1,342
	$ 239,002	$ 65,389	$ 173,613

6. Capital assets under lease:

These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the Greater Vancouver Transportation Authority ("GVTA") for their use pursuant to an Order in Council and operating lease, and represents one of the Province's contributions toward public transportation in the Greater Vancouver Regional District.

The operating lease arrangements with GVTA are for one dollar per year under an initial fifteen-year term commencing April 1, 1999, with additional five-year renewal periods upon the agreement of BC Transit and the GVTA. Cost information of these assets is as follows:

March 31, 2005	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,205,182	$ 388,818	$ 816,364
West Coast Express	128,848	19,267	109,581
	$ 1,334,030	$ 408,085	$ 925,945

March 31, 2004	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,208,302	$ 375,893	$ 832,409
West Coast Express	128,847	16,354	112,493
	$ 1,337,149	$ 392,247	$ 944,902

7. Notes payable:

	2005	2004
Commercial paper with the Province of British Columbia, 2004 - 1.82% weighted average interest rate	$ -	$ 3,487

8. Long-term debt:

	2005	2004
Sinking fund bonds, weighted average interest rate of 6.4%, maturing at various dates from 2006 to 2023, amortized from 10 to 20 years	$ 84,965	$ 81,466
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.1%, maturing at various dates from 2009 to 2010, amortized over 12 years	13,727	13,727
	98,692	95,193
Add: unamortized bond premium	103	119
Less: unamortized bond discount	(108)	(108)
	98,687	95,204
Less current portion	(2,745)	-
	$ 95,942	$ 95,204

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling $20 (2004 - $20) in the year for these fiscal agent services.

Long-term debt payments in each of the next five years are as follows:

2006	$ 2,745
2007	5,206
2008	10,200
2009	-
2010	2,966
Thereafter	77,575

9. Obligations under capital leases:

BC Transit leases equipment under leases which are classified as capital leases. The future minimum annual lease payments are as follows:

2006	$	34
2007		34
2008		34
2009		34
2010		34
Thereafter		166
		336
Less amount representing interest at 8.36%		105
Present value of capital lease obligations		231
Less current portion		16
	$	215

Interest incurred during the year with respect to obligations under capital leases included in other interest expenditures amounted to $20 (2004 - $21).

10. Deferred contributions:

Debt service contributions to fund sinking fund and interest payments are recovered from municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

		2005		2004
Balance, beginning of year	$	9,032	$	6,929
Contributions from municipalities - Victoria		15,663		16,797
Contributions from municipalities - other municipalities		16,555		15,953
Contributions from municipalities expended		(30,877)		(30,647)
Balance, end of year	$	10,373	$	9,032

11. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. The fair values of other financial assets and liabilities included in the balance sheets are as follows:

March 31, 2005	Carrying amount	Fair value
Debt sinking funds	$ 21,059	$ 22,615
Long-term debt (including related foreign exchange contracts and interest rate swaps)	98,687	112,507

March 31, 2004	Carrying amount	Fair value
Debt sinking funds	$ 15,997	$ 17,376
Long-term debt (including related foreign exchange contracts and interest rate swaps)	95,204	106,304

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Concentration of credit risk:

Financial instruments that potentially subject BC Transit to significant concentrations of credit risk consist primarily of cash equivalents and trade accounts receivable. To reduce credit risk, cash equivalents are only held at major financial institutions and management performs ongoing credit evaluations of its customers' financial condition. BC Transit maintains reserves for potential credit losses.

12. Commitments and contingent liability:

(a) Operating lease payments:

BC Transit is committed to make future minimum payments under operating leases for the next five years as follows:

2006	$ 1,118
2007	1,129
2008	1,218
2009	1,305
2010	1,305

These expenditures will be recovered from provincial and municipal sources pursuant to cost-sharing agreements.

(b) Contingent liability:

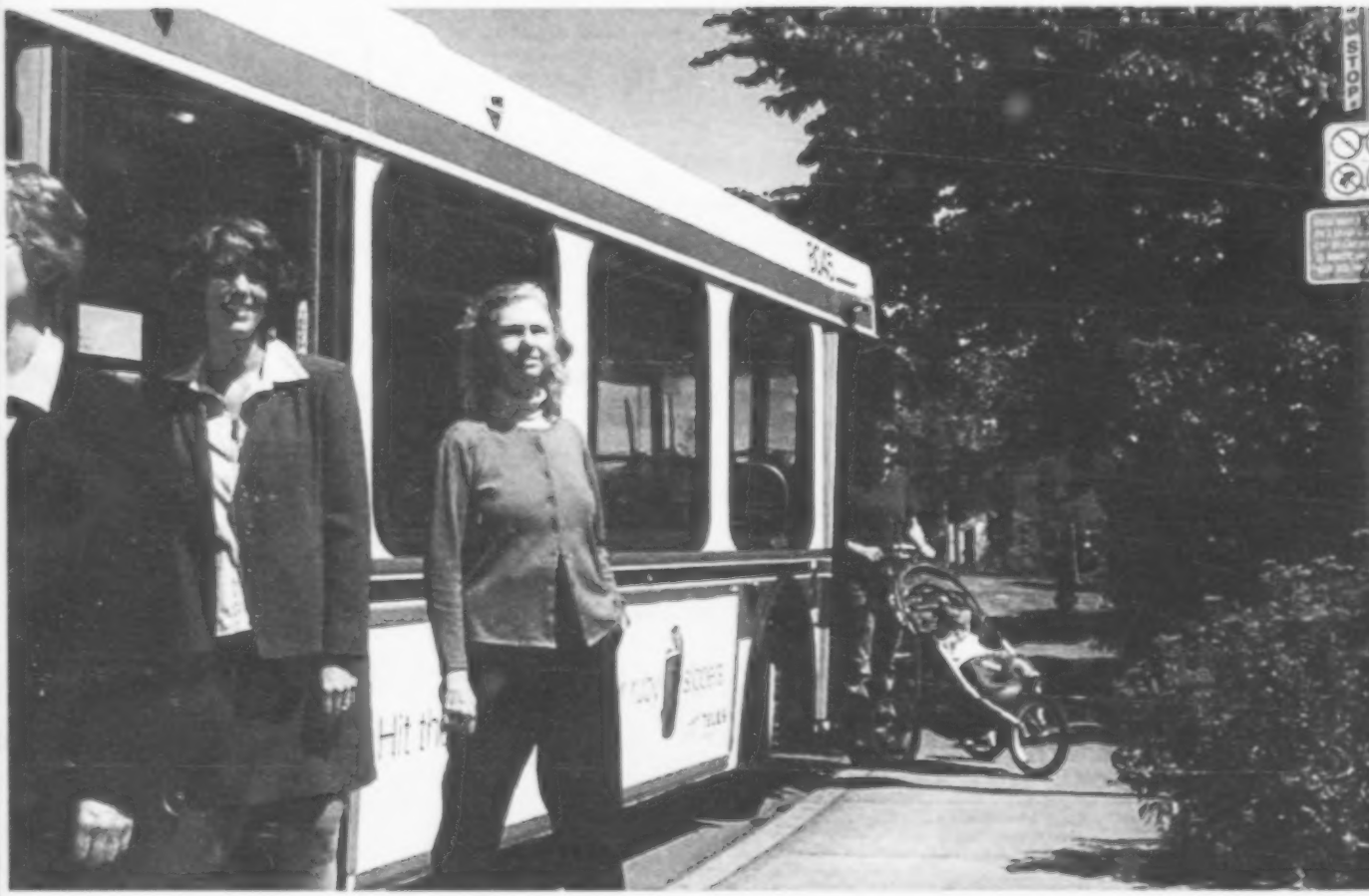
BC Transit is party to an agency agreement with Rapid Transit Project 2000 Ltd. ("RTP 2000") for purposes of the expropriation of land under the Expropriation Act. A number of previous owners of expropriated land have challenged the expropriated value. Any differences between the amounts paid and subsequently reassessed will be recorded by RTP 2000 in the period of assessment.

Management is of the opinion that the indemnity provisions of the agency agreement will wholly indemnify BC Transit for any costs incurred as a result of these claims and potential claims. No provision has been made in the financial statements related to this matter.

(c) Fuel management:

BC Transit manages its exposure to fuel price volatility by entering into purchase commitments with Petro Canada. These arrangements are used solely for the purpose of reducing fuel price risk and not for generating trading profits. Gains and losses resulting from the contracts are recognized as a component of fuel expense.

APPENDICES



A1 CORPORATE GOVERNANCE AND CONTACT INFORMATION

The Corporation is governed by a seven-member Board of Directors appointed by the province according to the BC Transit Act. The Act requires four of the Board members to be municipally elected representatives. The Chair reports to a provincial cabinet minister. The Board appoints a CEO and through broad policy direction, establishes priorities and resource levels to guide the CEO and executive team in the delivery of the corporate mandate.

BC Transit Board of Directors:

Gregory Slocombe (Chair), President, General Manager and Chief Operating Officer of Ridley Terminals Inc., Prince Rupert

Mayor Walter Gray, City of Kelowna

Mayor Colin Kinsley, City of Prince George

Bob De Clark, Human Resources Consultant, Nanaimo

Mayor Christopher Causton, District of Oak Bay

Mayor Don Amos, Town of Sidney

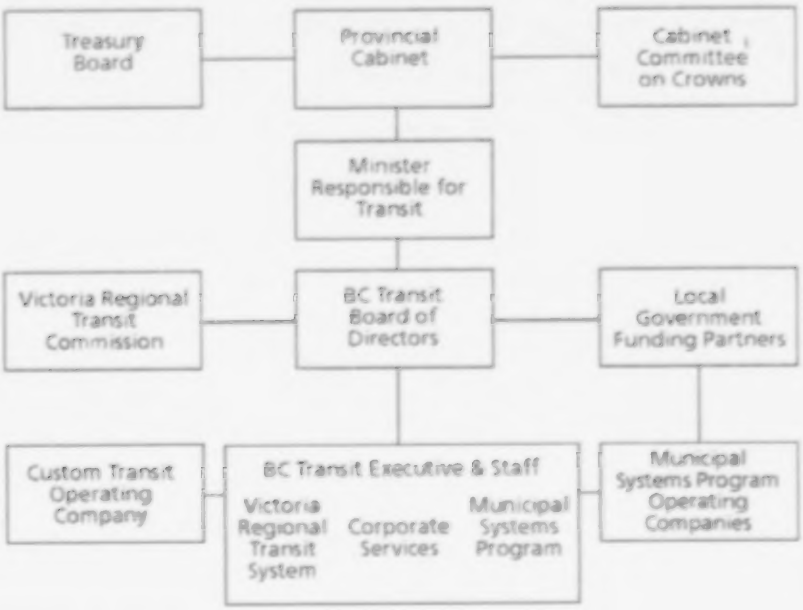
Dave Fisher, Business Consultant, Kamloops (to December, 2004)

BC Transit's governance reflects its core values — a strong commitment to partnerships with local government and service providers; transparent local-decision making on transit matters in open sessions at regional districts, municipalities and the Victoria Regional Transit Commission; utilization of sound financial management and reporting practices, as well as competitive and responsible purchasing practices.

The Audit Committee is the only standing committee of the Board, and meets either as a Committee of the Whole or as full Board in regular session.

The relationship of BC Transit and its local government partners to the provincial government is represented on the following page.

BC Transit Governance Structure



Senior Management Team:

Bob Irwin
President & CEO

Ron Drolet
Vice President,
Customer Service &
Corporate Secretary

Tony Sharp
Vice President, Finance & CFO

Susanne Fossey
Vice President,
Human Resources

Ron Harmer
Vice President, Technical Services

Steve New
Vice President, Municipal
Systems Program

Contact Information:

For further information about BC Transit contact our head office:

BC Transit
520 Gorge Road East
PO Box 610
Victoria, B.C. V8W 2P3

Telephone: (250) 385-2551
Fax: (250) 995-5639
Web: www.bctransit.com

BC Transit's Annual Reports and Three Year Service Plans are available on the BC Transit website at www.bctransit.com.

A2 GLOSSARY

Accelerated Maintenance Program – A program of major overhauls to reduce vehicle life-cycle costs.

Accessible Buses – Accessible buses are able to accommodate riders who have wheelchairs or scooters. Accessible bus stops are clearly marked with the international wheelchair symbol, and routes that are fully accessible are indicated in the Rider's Guides.

American Passenger Transportation Association – APTA is the professional association for urban transit providers in the United States and the leading force in advancing public transportation.

Annual Operating Agreement – A three-party agreement between BC Transit, the municipality, and the operating company which allows for the delivery of the local transit service and defines total costs and the responsibility of each party.

British Columbia Transit – A Crown corporation created by the Provincial Legislature under the terms of the British Columbia Transit Act to ensure a consistent and comprehensive transit policy throughout the province.

British Columbia Transit Act – This Act established BC Transit with a Board of Directors and designated the Board responsible for participating with local government in the establishment of transit policy as well as coordination of the planning and funding of the various municipal transit systems in the province.

British Columbia Transit Board of Directors – A seven-member Board of Directors, appointed by the province, governs BC Transit. The BC Transit Act requires that four of the Board members be municipally elected representatives.

Canadian Urban Transit Association – CUTA is the association for providers of urban transit services and the voice of the public transit industry in Canada.

Capital Costs – The sum of money paid for facilities and equipment (including taxes and interest charges) with a service life exceeding one year.

Conventional Transit – Transit service using regularly scheduled, fixed-route service, that is operating according to published route maps and timetables.

Cost-Sharing Agreement – An agreement between BC Transit and the municipality for the provision of transit service or the development of a transit study.

Custom Transit – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Also known as handyDART, which stands for handy Dial-a-Ride-Transit. Vehicles are vans or mini-buses that can accommodate wheelchairs and scooters. Riders must be registered with the handyDART office before they can use the service.

Double Deck Buses – BC Transit's Trident double deck buses were custom designed by Dennis Specialist Vehicles of Surrey, England. They are 12 metres (40 feet) long, 2.5 metres (eight feet) wide, and 4.3 metres (14 feet) tall and can carry 110 passengers. Compared to a single deck, 12-metre bus, the Trident double deck provides a 120 per cent increase in carrying capacity at a capital cost that is only 40 per cent higher. The Trident is low floor and fully accessible for wheelchairs and scooters.

Effectiveness – Effectiveness is a measure of the ability of the transit system to carry out the required services.

Efficiency – Efficiency is a measure of the ability of a transit system to provide a service within a minimum of expense or resource input.

Darts – Compact, mid-size buses that are ideal for smaller communities or neighbourhood routes as they are less noisy, more maneuverable, and more economical. The Darts, also known as Dennis Darts, come in two lengths – 10.6 m (35 feet) and 9.1 m (30 feet). All the Darts are low floor for easy boarding and accessible to wheelchairs and scooters.

Feasibility Study – Normally a two-phase study consisting of a Transit Concept Plan and a Transit Service Plan. The study is performed by BC Transit under the terms of a Cost Sharing Agreement between BC Transit and the municipality.

Flex Funding – Through amendment of the funding regulations pursuant to the BC Transit Act, local government and the Victoria Regional Transit Commission may apply to fund a higher percentage share of the annual operating budget to expand or maintain transit services in their community.

handyDART – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Riders must be registered with the handyDART office before they can use the service. Also known as custom transit, handyDART stands for handy Dial-a-Ride-Transit. Vehicles are vans or mini-buses that can accommodate wheelchairs and scooters.

Low-Floor Buses – Are designed so the entire floor is close to the pavement with no entry steps for easy boarding. For passengers who use walkers, crutches or who have difficulty stepping up, they have a kneeling feature that lowers the entry level even further. All low-floor buses have a ramp for wheelchair and scooter access.

Media Trade – Providing space in one advertising medium in exchange for access to another, instead of purchasing advertisements. For a transit system this means providing free access to advertising space in and on buses in exchange for use of radio spots or newspaper ad space. This provides opportunity to continue to inform customers with reduced marketing expenditure and limited or no loss of revenue.

Mode – A form of travel, e.g., transit, pedestrian, bicycle, automobile, or mixed mode such as bicycle and transit.

Municipal Systems Program – BC Transit is responsible for 52 municipal transit systems throughout British Columbia under the Municipal Systems Program. BC Transit is also responsible for the Victoria Regional Transit System which is separate from the Municipal Systems Program.

Municipal Transit System – A transit system operating or being studied in a community, excluding Vancouver or Victoria.

Municipality – For the purpose of agreements under the British Columbia Transit Act, municipalities are defined as cities, townships, villages, or regional districts, or a combination of these, involved in the operation, funding or feasibility assessment of a transit system.

Operating Company – The company selected by BC Transit and the municipality to operate the transit system under the terms of the Transit Service Agreement and the Annual Operating Agreement.

Operating Expenses – The sum of all costs associated with the operation, administration and maintenance of the transit system during a specified period, excluding depreciation and interest paid on loans for capital outlays.

Paratransit – Bus or van service in towns and rural areas where the population density does not warrant conventional bus service. More flexible than conventional fixed route transit, paratransit typically offers both custom door-to-door and fixed route service, with a flexible timetable to accommodate route deviation.

Peak Period (or Hours) – That period of time during a typical weekday in which the maximum amount of travel occurs. Usually a morning and evening peak are observed as a result of work and school related trips. The opposite of peak period is base or off peak period.

Taxi Saver Program – "Taxi Saver" is the name of a discounted coupon program which provides registered handyDART clients with up to $60 of taxi coupons at half price, valid for use in local taxi services. BC Transit has established agreements with local taxi firms in more than a dozen communities to process the coupons and top up payment to the meter rate.

Tiers - Groupings of Municipal Systems transit systems based on population size. Detail in Appendix A4.

A3 EXPLANATION OF STATISTICS AND PERFORMANCE MEASURES

Statistics

Statistics include operational outputs and transit service area statistics. These factors, when used in a ratio, indicate commonly compared industry standard performance measures. Total service hours represent the total number of hours that the transit fleet is in regular passenger service.

Revenue passengers represent transit riders who have made one fare payment to use the transit service. (Passengers who use a transfer and board more than one bus to complete a trip are only counted once.)

Operating cost is the sum of all costs associated with the administration, operation and maintenance of the transit system during a specified period excluding depreciation and interest paid on loans for capital outlays.

Operating revenues include passenger and advertising revenue. It excludes property tax and fuel tax revenue.

Population is for the defined transit service area.

Performance Measures

Performance measures are statistical ratios combining system outputs, and transit service area statistics to benchmark performance within the industry and operational trends over time.

Cost Recovery reflects annual operating revenue divided by total annual cost. This ratio indicates the proportion of costs recovered from operating revenue. Fares are established by the local partners. A strong cost recovery is desirable, as it reduces the subsidy from the taxpayer. This factor, however, is a municipal policy decision.

Operating cost per passenger reflects annual operating cost divided by annual passengers carried. This ratio indicates the efficiency of transit expenditures directed toward passengers carried. Consistent or decreasing cost per passenger indicates that ridership is growing faster than costs.

Operating cost per hour reflects annual operating cost divided by annual total service hours. The ratio also reflects efficiency. Increasing cost per hour indicates operating costs are increasing faster than service hours.

Rides per capita reflect annual passengers carried divided by regional population. This is a measure of market share and effectiveness in services that transit markets.

Passengers per hour reflect annual passengers divided by annual total service hours. This ratio is a primary measure of the effectiveness of the service provided. The ratio improves with lower average trip lengths, or higher average speeds.

A4 LIST OF MUNICIPAL SYSTEMS PROGRAM TRANSIT SYSTEMS BY TIERS

Conventional	Custom	Paratransit
Tier 1*		
Central Fraser Valley	Central Fraser Valley	
Kamloops	Kamloops	
Kelowna Regional	Kelowna Regional	
Nanaimo Regional	Nanaimo Regional	
Prince George	Prince George	
Whistler		
Tier 2**		
Campbell River	Campbell River	Comox Valley
Chilliwack	Chilliwack	Cowichan Valley
Comox Valley	Penticton	
Cowichan Valley	Vernon Regional	
Penticton		
Vernon Regional		
Tier 3***		
Cranbrook	Alberni-Clayouquot	Agassiz-Harrison
Dawson Creek	Cranbrook	Boundary
Fort St. John	Kitimat	Castlegar Regional
Kitimat	Kootenay Boundary	Clearwater & Area
Kootenay Boundary	Prince Rupert	Creston Valley
Nelson		Fort St. John
Port Alberni		Hazeltons' Regional
Powell River		Kaslo
Prince Rupert		Kimberley
Squamish		Nakusp
Sunshine Coast		Nelson & Area
Terrace Regional		Nelson – Slocan Valley
		North Okanagan
		Okanagan-Similkameen
		Osoyoos
		100 Mile House & Area
		Pemberton Valley
		Port Edward
		Powell River
		Princeton & Area
		Quesnel
		Revelstoke
		Shuswap
		Smithers & District
		Squamish
		Summerland
		Sunshine Coast
		Terrace Regional
		Williams Lake

***Tier 1:** Communities of 50,000+ population served, with the exception of Whistler

****Tier 2:** Communities of 20,000 - 50,000 population served

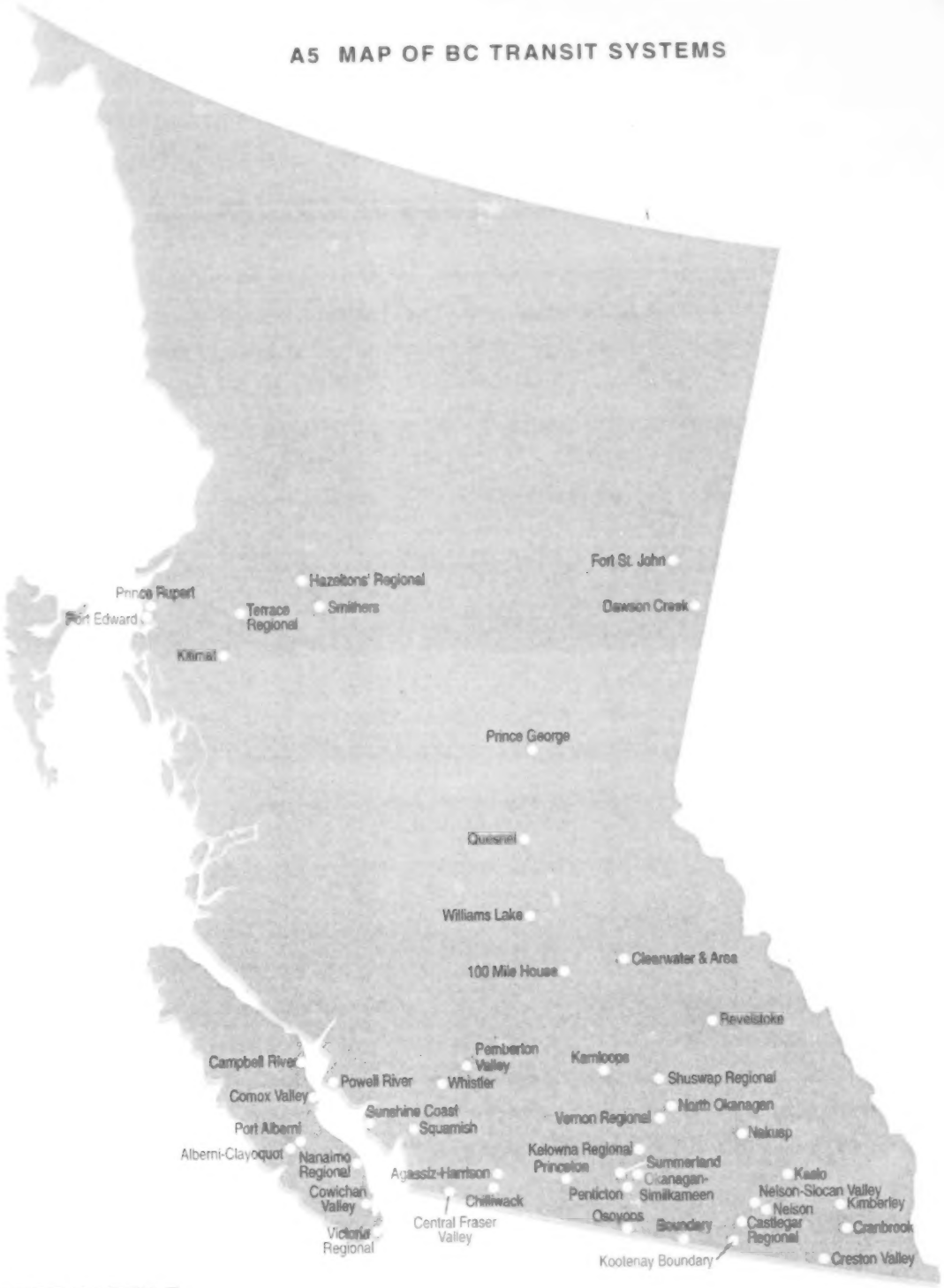
*****Tier 3:** Communities of less than 20,000 population served

A5 MAP OF BC TRANSIT SYSTEMS

A6 FLEET PROFILE

Fleet Profile	Diesel	Propane	Gasoline	TOTALS
Victoria - Conventional	198	0	0	198
Municipal Systems - Conventional	299	0	0	299
Victoria - Custom	39	7	0	46
Municipal Systems - Custom/Para	125	21	13	159
Totals	**661**	**28**	**13**	**702**

A5 MAP OF BC TRANSIT SYSTEMS



A6 FLEET PROFILE

Fleet Profile	Diesel	Propane	Gasoline	TOTALS
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